A Work Project presented as part of the requirements for the Award of a Master's Degree in Management from the NOVA School of Business and Economics

A MODEL TO SCREEN AND IMPROVE BUSINESS POTENTIAL OF MICRO AND SMALL ENTERPRISES IN DEVELOPING COUNTRIES:

EVIDENCE FROM THE ISLAND OF MOZAMBIQUE

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#1452

A Project carried out on the Management course, under the supervision of:

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May 30th 2014

Abstract

Programmes supporting micro and small enterprises in developing countries have been showing that capital is not enough to allow business success: survival and growth. Literature does not provide comprehensive and practical tool to support business development in this context, but allowed the collection of forty-nine success variables that were studied in a sample of successful and unsuccessful businesses in the Island of Mozambique to discover what were the key factors affecting those businesses' performance. Empirical data gave the insights for the development of a model to screen and improve business potential of micro and small enterprises in this context.

Key Words: Micro and Small Enterprises, Developing Countries, Business Development, Business Potential

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1. Introduction

In 2011 I joined the microfinance project of Move, a nongovernmental organization (NGO) founded by Portuguese management students in 2009, which operates in Mozambique, São Tomé and Príncipe, and East-Timor. Since inception, 121volunteers have implemented activities aimed to mitigate poverty by stimulating local developing economies: promotion of entrepreneurship, microcredit, business training and coaching. However, from the 46 entrepreneurs provided with microloans in the Island of Mozambique (IM), only 39% have watched their business to survive and to grow. This success rate is similar to the 40% for start-ups in developed countries, suggesting that some of the business success factors may overlap in more and less developed countries (LDCs).

Move's volunteers have been perceiving that microcredit has got the potential to improve dramatically the performance of small businesses and the beneficiaries' welfare, but it may be a dangerous weapon. Businesses followed by Move have been proving that microfinance does not alone guarantee the success of small businesses in LDCs, and certainly does not, by itself, eradicate poverty from the communities where it is made available. Beyond financial access needs, applicants to microcredit have been seen to lack ideas with potential to survive and grow, managerial skills, resilience, capacity to save and to comply with commitments.

In trying to overcome these obstacles, Move has been improving the quality of the information collected in the business plans produced for entrepreneurs, deepening the field research and criteria when advising and/or financing existing and new projects. However, Move has been struggling to get access to useful support material from the literature, which has been failing at providing systemized information on business development best practices, criteria to screen business potential, detailed business models, marketing or financial plans tailored for micro and small enterprises in LDCs. Only in the 70's has the academia started to realize the potential of developing markets both as entrepreneurs (Muhammad Yunnus, 1976) and consumers (Prahalad, 2002), as well as the relevance of systematizing the knowledge about BOP markets. Most of what has been done was developed towards multinationals and not to local enterprises.

In the presence of this need, the present research aims at understanding (1) what are the key factors causing the survival and growth of micro and small enterprises receiving a loan in the IM, and (2) what would be the characteristics of a model to screen business potential and

support micro and small enterprises' development process in the IM, compared to developed countries, in order to help NGOs in increasing the probability of success of these businesses.

This work project should add value to academia, to Move and, most important, to micro and small entrepreneurs in the IM and potentially in other developing regions. Move's fieldwork confirms the need for the study and provides useful inputs for its development. Business developing services from NGOs or the Government aiming to support micro and small enterprises also prove the readiness to apply the model, if useful.

The report includes a literature review on the topics of developing countries' economy, microfinance, and key factors for success and lack of success of income-generating, micro and small enterprises. After describing the methodology used throughout the research, discussion chapters present main findings and a model to answer the second research question. Conclusions and recommendations are driven by the end of the paper.

2. Literature Review

1.1. Microfinance and its impact on business success

The Bottom of the Pyramid (BOP) is the term used to include all consumers with a spending power of less than 2 dollars per day (Prahalad, 1998), who are mostly located in developing countries. In this context, Business Development Services (BDS) are provided by government agencies and NGOs, particularly concentrated in the area of microfinance (UNCTAD, 2001). Microfinance has been defined in the literature as the provision of financial services involving very small amounts of money to poor people, who otherwise would have no access to the mainstream banking (UN, 2008). Since the foundation of Mohammad Yunus' Grameen Bank in 1976, "large sums of public and private money continue to be invested in improving access to, and the quality of personal financial services" in LDCs, with "tremendous growth in the number of clients served" (UN, 2008).

Microfinance has been having a positive impact on the welfare of borrowing households by rising consumption (Khandker, 1998; Kono and Takahashi, 2010; Bruhn and Love, 2012). However, a research on the impact of microcredit schemes in Bangladesh, Bolivia, Indonesia, Kenya, Malawi and Sri Lanka showed that, "for a large proportion of borrowing households, increase in income stalled or plateaued after initial progress" (Hulme et al., 1996). Bradley et

al. (2012) sustain that capital may not be enough for business success, considered throughout this report as enterprises' income generation (survival) and growth (expansion) capacity.

Microfinance services usually benefit income-generating activities, micro and small enterprises.[1] Income-generating activities include a large proportion of necessity-based entrepreneurship, which corresponded to 40% of early-stage entrepreneurship in 2013 (Global Entrepreneurship Monitor), and often fail simply because of small exit costs, risk aversion and lack of entrepreneurial motivation and commitment. This kind of entrepreneurs are not likely to search for innovative opportunities in the market and pursue imitative businesses (Matin et al., 2002), which are easier to develop and require less capital, but are also subject to great competition, hindering expected returns. In opposition, the so-called "opportunity-based entrepreneurship allows for planning, due diligence, and preparation" (Bradley et al., 2012) and it can be found in (1) microenterprises – as would be the example of a traditional retailing of fruit in a neighbourhood – which generally employ the owner and 1 to 3 family members or apprentices, with a low or horizontal diversification process, and (2) small enterprises, employing 3 to 5 salaried staff on full-time basis, which may allow capital accumulation and have growth potential – as would be the example of a fishing boat (CAPEO, 1997).

1.2. Constraints for business success in developing countries

According to literature, contextual limitations affecting the success of small enterprises in developing countries include: (1) Low access to financial services, which is not the most important constraint according to a study from the UNCTAD, 2001; (2) Lack of social capital: networking and interfirm linkages (Ruef, 2002); (3) Target customers with low purchase power and high price sensitivity, causing these markets to absorb very few luxury goods: 80% of BOP clients' consumption is spent in food, clothes and fuel (Aneel Karnani, 2007), limiting pricing and product differentiation possibilities, and causing oversupply in primary-needs markets; (4) High price volatility (Tybout, 1999); (5) Short input supply, limiting the capacity to serve unfulfilled needs (Esim, 2001); (6) Complex and expensive infrastructures, especially in rural areas (Tybout, 1999): roads, ports, airports, communication facilities, power, and safe water access tend to be limited in LDCs (WB, 2013); (7) Competition of foreign goods, which limits the added-value or lower pricing possibilities from local enterprises (Ewah, 2009), and (8)

[1] See Appendix 2.1 for detailed differentiation among enterprise typologies.

Political instability, poor implementation of policies to support small enterprises (Hall et al., 2012), corruption, taxation and inefficient formal institutions (Bradley et al., 2012).

Some of these exogenous challenges have been fought with new public policies (WB, 2013), and the intervention of NGOs (OECD, 2004). Given that a small entrepreneur can hardly change contextual constraints, he can more easily control for endogenous factors. However, at the organization level, literature points out a number of endogenous business constraints in LDCs: (1) Low-scale businesses and few scale-economies (Aneel Karnani, 2006); (2) Poor human capital: (2.1) low education of managers and staff due to a difficult admission to good quality technical and management training programs (Esim, 2001); (2.2) no planning habits to identify sources of demand, customers, business links and product adaptation needs (Barton 1997); (2.3) inexperience in the field business; (2.4) little information on markets, design and technology; (2.5) risk aversion related to indebtedness (Bradley et al., 2012) and a limited "capacity to aspire" (Appadurai, 2004) derived from historical conditioning or previous failed attempts to change life conditions; (2.6) poor capacity to innovate neither in the form of differentiation – newness determined in relation to competitors' offerings – nor novelty – newness determined in relation to the community (Bradley et al, 2012) – which, according to Kotler (1980), is possible even within hard exogenous constraints.

Eneh (2010) registers mechanisms used by small and medium entrepreneurs in Nigeria to overcome constraints and be successful: (1) staff education and training; (2) local working materials to save purchase time and costs; (3) direct marketing approach: knocking door-to-door selling or wholly owned retail outlet, in order to cut costs of middlemen bottlenecks; (4) R&D; (5) informal cooperatives; (6) selling essential commodities and products in demand; (7) backward and forward integration; (8) downsizing; (9) mergers; (10) effective customer response orientation; (11) marketing advantage sustainability; (12) flexible marketing channel focus. Some of these strategies may be possible only for medium enterprises.

1.3. Business development models in developed countries

Similarly to developing countries, in developed countries only 40% of start-ups are successful. Steve Blank (2005) has been linking unsuccessful initiatives with a Product Development Model (PDM) followed alone, overviewed in Figure 1, in opposition to product development done simultaneously with a customer development process.

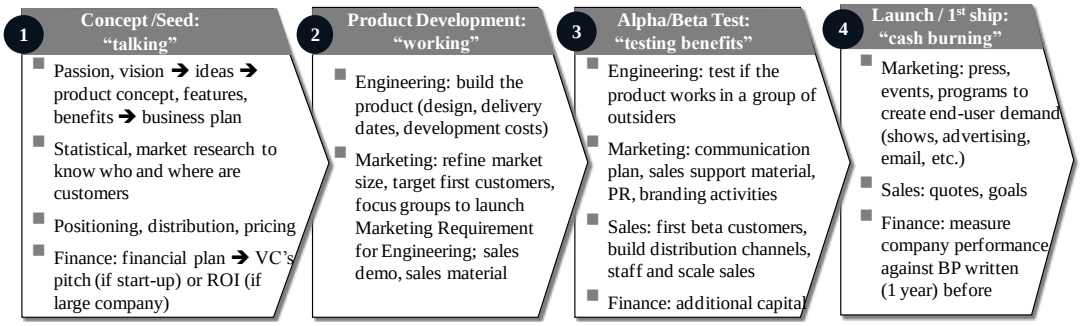

Figure 1: The Product Development Model, adapted from Steve Blank (2005)[2]

At a first glance, the PDM seems to make scense. However, according to Blank, a problem emerges right at the first stage: where are customers? Blank alerts for the waste of money on developing a product that potentially no one wants or has the ability to pay for. Throughout the PDM, Blank highlights the emphasis on execution based on unrealistic expectations, instead of learning and discovering real needs. The massive launch is a premature scaling if demand is not proven to exist, which often causes a death spiral by insisting on the product and burning more and more cash without proportional revenues. Furthermore, practices such as focus groups (that aim at understanding the wants of all customers) and the exhaustive listing of features and marketing requirements customers want (before they even buy the product) may be adequate for large companies, but are too costly and time consuming for start-ups.

Hereby, Blank and other start-up practitioners suggest a Customer Development Model (CDM), overviewed in Figure 2, simultaneously to and conditioning product development. This was the process tracked by successful start-ups studied by the authors. The CDM validates demand with a minimum viable product (MVP), as Eric Ries called it later in the Lean Start-up Model (2011), and justifies cash burning in the third stage, with safer guarantees of success.[3]

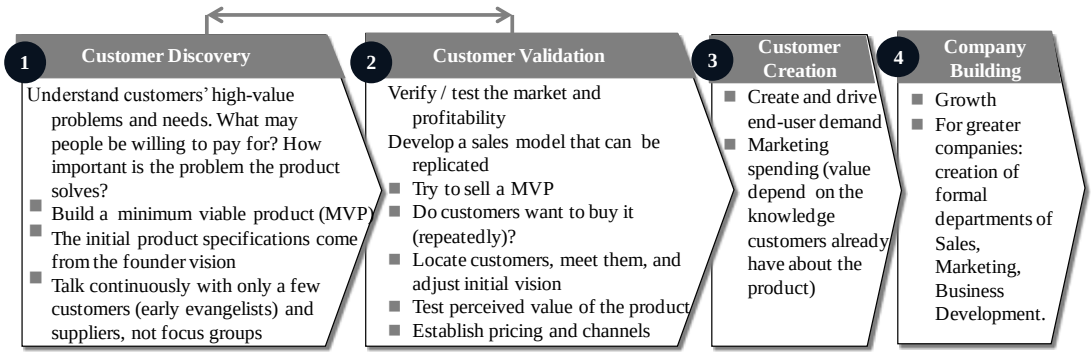

Figure 2: The Customer Development Model, adapted from Steve Blank (2005)[4]

[2] See a detailed explanation about the Product Development Model in Appendix 2.2
[3] See Appendix 2.4 for a graphical scratch illustrating the cash burn in a PDM *versus* a CDM.
[4] See a detailed explanation about the Customer Development Model in Appendix 2.3

The identification of unfulfilled needs in the market, which is the point of departure for Blank and Ries' models, can also be named "value creation" (Philip Kotler, 1980). Kotler's concept of creation of value implies both the market context (to identify external opportunities) and the organization (to identify segments the enterprise is capable of serving the best). These two dimensions will together determine an enterprise business model and are the pillars of Kotler's concept of Marketing. According to Kotler (2009), considered the father of modern Marketing, this science and art allows companies to create value for a target client through the product, pricing, promotion and distribution, and afterwards to capture it.

1.4. Conclusion of the literature review

It is fairly recent the consciousness about developing countries' potential as consumers and entrepreneurs. In spite of a certain level of awareness about the importance of a proper early-stage business development for its success, a poor level of knowledge is coming from and towards developing countries. The product and customer development models have been produced from the inputs given by start-ups in developed countries. Literature provides marketing and financial plans, or business potential screening models designed for Venture Capitalists, that have been refined for industries' specificities in developed countries. But the applicability of those models in developing countries is yet little explored, and the previously indicated business success constraints in developing countries indicate that early-stage development in those contexts may require more tailored tools and steps. A number of institutions are currently providing business training and expertise in developing countries (e.g. the International Fund for Agricultural Development), but this is being done mostly on a *had-oc* basis and through personal contact with other institutions already doing it, leveraging the know-how each of them has been acquiring throughout time. This knowledge is not being comprehensively systematized or published. Hereby, the present study aims at confirming empirically the challenges for business success in developing countries, and check how the business development models inducted from developed countries may fit under-developed economies. By finding what aspects of the models are valid for developing countries, and what are the gaps when it comes to apply them in those economies, it may be possible to build practical tools applicable by NGOs and entrepreneurs to increase the probability of success of micro and small enterprises.

3. Methodology

In order to understand what variables drive the success and failure of businesses in developing countries, this research started by extracting literature's key success endogenous mechanisms and constraints for micro and small enterprises in developing and developed countries. Some variables were added to the ones found in literature, based on the author's permanent contact with the field, since 2011, and feedback from volunteers of Move and other organizations present in the Island of Mozambique, such as AMODER (Mozambican Association for Rural Development) and UNIDO (United Nations Industrial Development Organization).[5] A total of 49 variables were collected and tested in a sample of micro-businesses (1 to 4 employees) from entrepreneurs in the IM, a district in northeast Mozambique. Most variables were formulated under the hypothesis that, if those variables were confirmed in the sample,[6] the probability of the business to be successful would be higher than if not confirmed. The objective of the research was to find the key success factors of the 15 successful businesses in the sample (the businesses which survived and expanded after credit reimbursement). The control group was composed of 15 unsuccessful business cases (did not survive nor expanded). Due to the small size of the samples, conclusions were driven more on a *case-study* logic than through a more rigorous statistical or econometric method.

All entrepreneurs in the sample were given one or more micro-loans and business advisory from the NGO Move, to be invested in a certain business, between 2009 and 2013. From the 52 microloans intermediated by Move in the IM, the sample was chosen based on the following criteria: (1) the entrepreneur had used the loan to start-up or expand a business activity (2) that was not mostly conditioned by external factors (e.g. fishing)[7] and (3) there was enough information available about the entrepreneur and early-stage or expansion of his business. Those entrepreneurs in the sample who had a loan to expand their business were not monitored by Move at the initial stage. Both initial and expansion periods are important for the study, as the survival of a firm is conditioned by its initial phase and growth capacity is tested when trying to expand.

[5] See Appendix 3 to find all success variables, their explanation and source.
[6] Answered "YES" or other answers indicated in the last column of the table in Appendix 3.
[7] Most fishermen supported by Move were not successful because adverse weather conditions caused them to take a lot of time to recover from investments such as nets, oil and personnel, which made them over-indebted with formal and informal loans external to Move, in a death spiral.

The analysis of the common factors across successful and non-successful businesses allowed an intuition about the most relevant key success factors in the context of the sample. Matching these findings with the literature, it was possible to find relationships between success factors for the IM and business development processes seen as critical in developed countries, allowing the creation of a model to support NGOs in helping micro and small enterprises in the IM to survive and grow. The output of the study is a tool to screen and improve business potential of micro and small enterprises applying for a loan in the IM.

4. Context of the Sample

4.1. The Island of Mozambique – Overview of External Factors Affecting Businesses

The sample was collected in the district of the IM, province of Nampula, Mozambique. Mozambique is a low income country (WB, 2012) but has had an annual growth rate of more than 7% in the last five years and is one of Africa's transition economies as it has begun the process of diversifying its sources of growth (McKinsey Global Institute, 2010), although still depending on extractive industries (INE, 2013)[8]. Micro, small, medium enterprises (MSME) contribute to 43% of the country's employment and 60% of GDP[9] (OECD, 2013). The civil war following the independence from Portugal (1975) caused the destruction of most infrastructure and natural assets, but since 1992 the government has put its efforts in gaining economic stability to make the country attractive to foreign investment. In the Doing Business rank from the WB[10], Mozambique is currently placed at 139 out of 189, with a positive trend.

The province of Nampula presents a particularly high volatility of prices (Minot, 2012)[11] compared t other developing regions in and outside the country, and the population of the IM has a very low purchase power (INE, 2007)[12]. The access to land, transportation and electricity[13] in Mozambique is considered very poor (WB, 2013). Average total tax rate is 37.5% - below the OECD average – but the time spent in payments is 33% larger than in the OECD[14]. Only 22% of the adult population has got access to financial services.[15]

[8] See Appendix 4.1 for detailed information about Growth and Main Industries in Mozambique.
[9] See Appendix 4.2 for detailed information about Firm Characteristics in Mozambique.
[10] The rank considers indicators such as Dealing with Construction Permits, Trading Across Borders, Resolving Insolvency, Enforcing Contracts, Paying Taxes, Getting Credit and Getting Electricity.
[11] See Appendix 4.3 for detailed information about Volatility of Prices in Mozambique.
[12] See Appendix 4.4 for detailed information about Purchase Power in Mozambique.
[13] The "Getting Electricity" indicator ranked Mozambique at 168 out of 189 in the Doing Business 2014.
[14] See Appendix 4.5 for detailed information about Taxes in Mozambique.

In the USAID Corruption Assessment for Mozambique (2005) the country is described as being "deeply threatened by corruption at all levels", including judicial, health, education and political. From the over-5-years-old population of the IM, data from INE 2007 tell that about 80% has got no educational level completed, 14% did primary and 6% secondary school.[16]

The top 2 business environment constraints, out of a list of 15, indicated by a pool of small and local[17] business managers in Mozambique were *access to finance* and *the practices of competitors in the informal sector*. The top 7 adds *electricity, transportation, crime, taxes and corruption* to the list (WB, 2013). This rank was obtained from the perspective of business owners and includes only exogenous constraints. But what makes businesses fail, survive and grow in the specific context of the IM, where exogenous factors are similar across businesses?

4.2. The NGO Move – Overview of Business Project Selection Criteria

The main activities of the NGO Move include microfinance for the beginning or expansion of business projects[18], business advisory and training. The vision of the organization is to cause impact on businesses, with a preference for a higher autonomy and success rate of entrepreneurs, over a larger outreach. The selection process of applicants to microloans entails (1) business training to monitor participants' performance and allow them to refine the business idea, (2) interviews with the candidates, (3) field research and (4) business planning. The three criteria to choose among projects are (1) the impact the loan may have in improving the family life conditions: 57% of the entrepreneurs in the sample have more than 4 people dependant on them; (2) potential impact in the community, including employment generation: the businesses in the sample employed 1 to 4 people; and (3) business sustainability. The last criterion has been hard to screen: in the sample, only half of the businesses survived and grew, similar to the 40% rate of success found for developed and LDCs in the literature, showing the relevance of a tool that may improve the probability of success.

5. Drivers of Success in the Island of Mozambique

The factors identified in the sample as the most determinant for each business' success (KSF) or non-success (KUF) were ranked by the number of samples where that factor had been

[15] See Appendix 4.6 for detailed information about Access to Financial Services in Mozambique.
[16] See Appendix 4.7 for detailed information about Education in Mozambique.
[17] See Appendix 4.8 for detailed information about main business constraints from the managers' perspective in Mozambique: Small Enterprises and Enterprises in Nampula in the formal sector.
[18] The micro-loan may be granted to finance capital expenditures or working capital needs.

pointed as key[19]. But in order to allow a broader vision on the results, the variables were also grouped and studied according to business dimensions, as in the following sub-chapters, which allowed finding to which broader determinants did Top 1 KSFs belong: 53% to managerial and 47% to marketing issues. KUFs were mostly exogenous (40%) and managerial (40%), but also related to marketing capabilities.[20] Main findings about the variables are presented below.

5.1. Business Activity[21]

The success cases' sample is mostly composed of aviculture activities (20%), retailing of consumables without production (27%) and hairdressing (27%), but the numbers do not allow conclusions about strategic activities to develop. Among unsuccessful cases, 67% were related to retailing of consumables with no production, suggesting this may be a risky activity.

5.2. Marketing Variables I: Product and Demand[22]

Only 27% of unsuccessful and successful entrepreneurs, together, used the loan to sell services. Only half of successful and almost all unsuccessful businesses sold products, which can be explained by the fact that services, in this context, allow larger margins and less risk. Retailing products requires a permanent working capital capacity to repurchase raw material or products, when only 45% of the entrepreneurs selling products were said to be able to save.

Both for successful and unsuccessful business in the sample, one third of products or services would solve basic needs of consumers.[23] One fifth of the essential commodities sold by successful businesses was not in demand (supply was enough to satisfy demand), and all these entrepreneurs differentiated, which may have caused them to be successful. Half of successful entrepreneurs selling basic products in demand did not need to differentiate to be successful. From those successful entrepreneurs selling non-essential commodities that were not in demand, half of them brought novelties into the market: customers were not seeking the product or service because they had never seen it before, but these entrepreneurs were able to create a new market. Within unsuccessful entrepreneurs, those selling basic products that were not in demand did not differentiate, which can explain why the business did not survive or did

[19] See Appendix 5.0.1 for the ranks of key success variables and key non-success variables.
[20] See Appendix 5.0.2 for the weight of KSF and KUF broad business determinants.
[21] See Appendix 5.1.1 for the composition of successful and unsuccessful businesses (SUBs) samples according to Business Activity.
[22] See Appendix 5.2.1 for the composition of SUB samples according to Product.
[23] See Appendix 5.2.2 for the relationship between the needs solved by the products, demand fulfillment and differentiation levels for successful and non-successful businesses

not grow. From the unsuccessful entrepreneurs selling basic products in demand, all of them differentiated, but 33% did not get feedback from clients, so maybe those differentiations were not valued by customers. Literature and the sample show that differentiation can follow different strategies and will be more or less successful depending on the market context and business activity. The topic of sources of differentiation and successful differentiation strategies, alone, could be the central subject of a study. The most successful differentiations in the sample can be found in Appendix 6.2.1, and include product quality and exclusive location.

5.3. Purpose and Conditions of the Loan

Loan Purpose[24]: The 30 loans in the sample were conceded for entrepreneurs to create a new business (33%), re-open a previously existing one (17%) or expand an existing one (50%). Within re-opening businesses, only 20% were successful. These experienced entrepreneurs would be expected to have stronger businesses and management skills than those who were starting the business for the first time, but the numbers alert for the importance of finding out the reasons why the business shut down in the first attempt(s).

Loan purpose allows the segmentation of businesses between those which, during the loan, were in an initial, or start-up, stage of the business (receiving the loan to open or re-open a business) and those who used the loan to expand an existing business. From this point on, variables affecting or depending on business stage are analysed separately for each phase.

Loan Conditions[25]: Both for initial and expansion stages, it seems to have been important for business success the definition of weekly or monthly instalments allowing entrepreneurs to have spare money, from the business income, to cover business and family costs. But even having these conditions guaranteed, the sample shows the need from Move to have the flexibility to renegotiate the frequency and values of the payment, due to non-accurate sales estimations for the initial stage and too optimistic expansion expectations.

5.4. Business Planning[26]

Initial Stage

Getting feedback from existing or potential clients before the loan, before launching it, seems to be a KSF at the initial stage of businesses in the sample. All entrepreneurs (successful and

[24] See Appendix 5.3.1 for the composition of each loan purpose sample according to business success
[25] See Appendix 5.3.2 for the composition of SUB samples according to Loan Conditions
[26] See Appendix 5.4.1 for the composition of SUB samples according to Business Planning

not successful) compared their products, prices and location with competitors before the beginning of the loan, indicating that benchmarking may be necessary but not enough to guarantee business success. Benchmarking is important to inform entrepreneurs about differentiation needs and to allow an accurate sales estimation. Sales estimation also usually have in account the number of competitors and market share estimation, but none of those two variables was found to be a KSF in the sample. Only half of the sales estimated in the business plans of successful businesses were attained after the beginning of the business, and none of the business plans of unsuccessful entrepreneurs had an accurate sales estimation. The numbers reveal that, in this context, it is hard to estimate sales before start selling, which is consistent with Simanis et al.'s view on BOP markets: "there are few to no effective product markets and a proliferation of informal trades and exchanges," thus "there are no reference points to determine whether a product has demand" (2008). This challenge points out for the importance of testing how much a product sells before massively launching it, and the necessity of adapting production and loan instalments throughout business life and loan repayment period.

Expansion Stage

Only 55% of the sales estimated in the business plans of successful businesses were attained after the disbursement of the loan, despite of the fact that 91% sized competition and 75% compared their business with similar enterprises. This information reveals that, even if an enterprise is already in its expansion stage, future sales are still hard to estimate and a pessimistic view must be taken when predicting how an extra investment in an enterprise will lead to incremental sales: an increase in capital does not alone drive sales improvements.

5.5. Concept Proof

Any of the new businesses in the sample was tested before been given a micro-loan. The purpose of all loans in that sample was to initiate the business and not to test it (in that case the loans could have been smaller), under the assumption that the start-up would probably be successful, after the business plan has been made. The entrepreneur had no evidence that any one was willing or able to pay for his product. The businesses that were tested with the support of Move did not follow through, thus are not part of the sample. Although the test of selling a MVP was not a KSF for any of the businesses in the sample, it prevented those which were tested from getting a loan and saved them from a hard time in repaying it.

Within the businesses that were re-opened with the loan, all the successful ones were profitable before the loan, while only 25% unsuccessful were profitable. Businesses that have shut down due to low profitability seem to bring high risks when re-opening.

All successful and unsuccessful businesses in expansion were profitable before the loan, showing that other factors were key for success rates. The data collected does not allow concluding if loans were asked to attain better profitability or higher revenues.

5.6. The Entrepreneur

Initial Stage

Management capabilities[27]: Technical knowledge, secondary schooling, saving habits and planning habits seem to play a positive role in starting-up. None of the entrepreneurs could separate family spending from business spending, suggesting this is a contextual constraint.

Networking[28]: An advantageous network does not seem to be a KSF but it may be particularly valuable on the initial stage of a business in the IM.

Risk Management[29]: All successful entrepreneurs had other sources of income besides the business where they invested the loan: they were simultaneously working for other people in public jobs or construction. Only 45% of unsuccessful entrepreneurs did so. The existence of other sources of income may mitigate the probability of instalment default and it is a business liquidity warranty, especially at an initial stage, when revenues are uncertain and the business model is not yet fine-tuned.

Expansion Stage

Management Capabilities[30]: No-one in the sample studied until the 12th grade. The lack of relevance of the national school system at this stage can be caused by a poor quality education given at school, and by the fact that other variables played a more important role in business success: all successful entrepreneurs had technical knowledge and experience in the field business where the loan was invested in, 82% could comply with deadlines and schedules, and 73% could, by habit, save money to repurchase raw material. This last variable seems to play a very important role in the sustainability and growth capacity of a business in the context.

[27] See Appendix 5.6.1 for the composition of SUB samples according to Management Capabilities
[28] See Appendix 5.6.3 for the composition of SUB samples according to Networking and Risk
[29] See Appendix 5.6.2 for the composition of SUB samples according to Networking and Risk
[30] See Appendix 5.6.1 for the composition of SUB samples according to Management Capabilities

Networking[31]: Being associated to other professionals may be an advantage, possibly allowing for scale economies, knowledge sharing and easier access to resources, among other benefits.

Risk Management[32]: As opposed to the initial stage, other sources of income, in expansion, seem to negatively affect performance, causing the entrepreneur to diffuse efforts and time in more than one activity, devoting more working hours to the sources of income which allow for short-term safe money, such as working for another person and earning a fixed salary. Working for others can even incentive risk-averse entrepreneurs to shut down their own business.

Exogenous and endogenous constraints

Although the sample was chosen not to include businesses with a high probability of being damaged by externalities, among the strongest causes indicated for the lack of success[33], 38% are exogenous factors not directly related to the type of business: robbery; health problems of the entrepreneur or relatives; infrastructural (e.g. no capacity to handle electricity power at home); very high costs or impossibility to fix damaged machinery; raw material price volatility. A great part of these entrepreneurs (67%) had good entrepreneurial skills and, within those entrepreneurs, 75% were motivated to re-open,[34] meaning that a second loan could be relevant in these cases, as long as exogenous risks would be previously mitigated. Capital would be a critical constraint that could be solved by a microcredit: it was crucial for the only successful entrepreneur in the sample receiving a loan to re-open his business.

For initial and expansion stages together, from the businesses that had no success due to endogenous factors, although 67% had experience in the field business, only 11% had planning and saving habits before the training from Move, only 33% had technical knowledge in the business activity, and only 22% could comply with schedules. These numbers show the impact Move can have if providing effective technical and management training and coaching.

Trade-off implications

73% of successful and only 20% of unsuccessful entrepreneurs would have access to other formal or informal sources of credit besides Move to start-up or expand their businesses. The fact of knowing that a borrower has got access to other sources of credit besides Move may be

[31] See Appendix 5.6.3 for the composition of SUBSs according to Networking and Risk
[32] See Appendix 5.6.2 for the composition of SUBSs according to Networking and Risk
[33] See Appendix 5.6.2 for key causes for lack of business success
[34] Causes of lack of motivation to keep the business: other jobs paid better, too heavy workload, need to spend revenues in re-paying the loan and unexpected business costs.

a risk signal for lenders (as the entrepreneur may get over-indebted) but on the other hand may be a signal of confidence (the more others trust him to lend him money, the less risky he should be). The sample suggests a trade-off that Move needs to have in mind when approving loan proposals: helping the people with lower business risk, or the poorest of the poor, who usually have the highest risk and less access to credit, but are likely to be those who, in fact, are not able to get out of the poverty cycle by themselves.

5.7. Marketing Variables II: Pricing, Communication and Distribution Channels

Initial Stage

Pricing[35]: The sample presents 75% of successful businesses with an initial price that covered costs and was adapted to the willingness and ability to pay of the target market, but also 91% of unsuccessful businesses did. This shows that pricing has not been a particular problem for entrepreneurs in the sample. The business planning that Move did with the entrepreneurs, before the disbursement of the loan, might have contributed to mitigate this potential problem. Multiple pricing does not seem to be a constraint for business success either (maybe because it is a current practice in the context), although it was indicated for one entrepreneur as one of his key success factors: he would expose prices (not a common practice in the IM) and would, thus, attract tourists (a niche market) who are usually afraid of being trapped by local sellers.

Costs: Cost and suppliers' confirmation before the loan disbursement cannot be labelled as KSFs. Nevertheless, these variables should be particularly determinant when starting-up in this context, due to the high inflation rate and volatility of prices and suppliers in Nampula.

75% of successful businesses were free of profit or labour taxes, permits or licences.[36] Tax savings, like any cost saving, may be especially helpful in starting-up, to lower cash burning.

None of the successful businesses, and 55% of unsuccessful, purchased locally the materials needed for the business. Having local suppliers does not seem to be a business advantage, contrarily to literature, and from the entrepreneurs who benefited from scale economies, 100% would purchase in other cities, suggesting that purchasing outside the IM allows cost savings.

Half of the unitary margins of successful and unsuccessful entrepreneurs were larger than 33%, meaning that half of the entrepreneurs in an initial stage had to make sure quantities sold would

[35] See Appendix 5.7.1 for the composition of SUBSs according to Price and Costs

[36] Excluding VAT and charges of the loan

be large enough to compensate for small margins. Low margins may be due to lack of economies of scale: half of successful businesses' size did not allow for scale economies, and only 18% of not successful did. This can be due to lack of investment capital, or to the small dimension of the local market, and may hinder success. However, in this sample, percentages do not show high margins and scale economies as KSFs, but as contextual constrains.

Communication[37]: Three quarters of successful businesses communicated the product or service to potential clients right after the disbursement of the loan and further on, through leaflets, posters and personal conversation to generate word-of-mouth. Only 45% of non-successful did an initial communication effort, but some of them must have had the need for promotion further on, as the percentage of non-successful entrepreneurs trying to communicate the product raised to 55% some months after the beginning of the loan. Communicating the product seems to be important for business success, although the numbers reveal that 50% of entrepreneurs do not have a target consumer in mind. Therefore, resources may be being wasted in promotion if the message is not reaching a large percentage of potential clients.

Distribution Channels: Having a direct marketing approach or an accessible business location are not particular KSFs in this sample, as almost all entrepreneurs had them.

Expansion Stage

Pricing: More significantly than for start-ups, price issues have not been a particular obstacle for business growth, since these already had time to fine-tune pricing.

Costs: Move helped almost all successful entrepreneurs to confirm costs and suppliers before the loan disbursement, and did it with only half of the unsuccessful entrepreneurs, believing that those businesses, which had survived until then, did not require a double check on costs. This may have resulted in underestimated costs or overestimated availability of suppliers, with overvalued business growth expectations.

Similarly to businesses in an initial stage, having local suppliers does not seem to be a business advantage in expansion. Almost three quarters of successful and unsuccessful entrepreneurs had unitary margins larger than 33%, revealing that, in a more advanced period of the business, margins tend to increase. These large margins do not seem to come from scale economies, contrarily to start-ups, as only 18% of successful businesses' size allowed for saving costs, as

[37] See Appendix 5.7.2 for the composition of SUB samples according to Communication and Channels

well as only 25% of unsuccessful expansions. One could expect that entrepreneurs ready to expand would have larger scales than start-ups, but the numbers may actually explain why some entrepreneurs applied to get a loan: more capital may allow larger scales and margins.

Communication: Communication does not seem to be as important for expansion success as it is for start-ups, but money and efforts are also being wasted with ineffective communication.

Distribution Channels: Similarly to start-ups, having a direct marketing approach or an accessible business location are not particular KSFs in expanding a business in the IM.

6. A model to screen business potential of micro and small enterprises in the IM

6.1. Drivers for the conception of the model

Given the nature of Move – to finance businesses with capital needs, but also to support them throughout the definition of the business model and the business development process – when screening business potential and deciding whether to finance a project or not, an hybrid model is needed: a model that guides Move's volunteers during due diligence, giving them the criteria to be considered for loan approval, but also a model to help volunteers when advising entrepreneurs on how to improve the probability of success within their business environment.

6.2. The model

Analysing "Business Planning" and "Concept Proof" variables, results show that nor the Product Development Model nor Blank's Customer Development Model exactly fit the needs when developing a business concept and assessing its potential in a start-up stage in the context. A model close to the CDM seems to be adequate, since microfinance cannot pay for a comprehensive market research, nor the mass production of a product with the risk of not being able to sell it: that would lead to an over-indebtedness level that entrepreneurs would hardly overcome. However, in the IM, entrepreneurs are often not even likely to have the money to finance the production of a minimum viable product to be put in the market. Microfinance can support that, but NGOs need to know more about the entrepreneur before disbursing a loan, and should assess and improve the success potential of a business even if they are about to finance a MVP: any small amount borrowed will be hard to pay back by a micro-entrepreneur in the IM, according to the experience of Move. This hinders the possibility of a pure CDM.

In a microfinance context, business planning at a start-up stage seems to be crucial even before a test: the emergence of client's feedback (before the loan) as a KSF, at this phase, is a proof of

that. Also for an expansion stage is it important to business plan, as only half of the entrepreneurs were found to have planning habits prior to Move, which is a risk when considering the proven need to mitigate external constraints and the ability to repurchase raw materials as a KSF. Given the small dimension of businesses in the present context, the initial stage already passed through by wishing-to-expand businesses may be considered as a MVP.

Consistently with chapter 4, the present model considers that Move must go through seven stages when financially supporting projects, as in Figure 3, in a mid-point between the PDM and Blank's CMD.

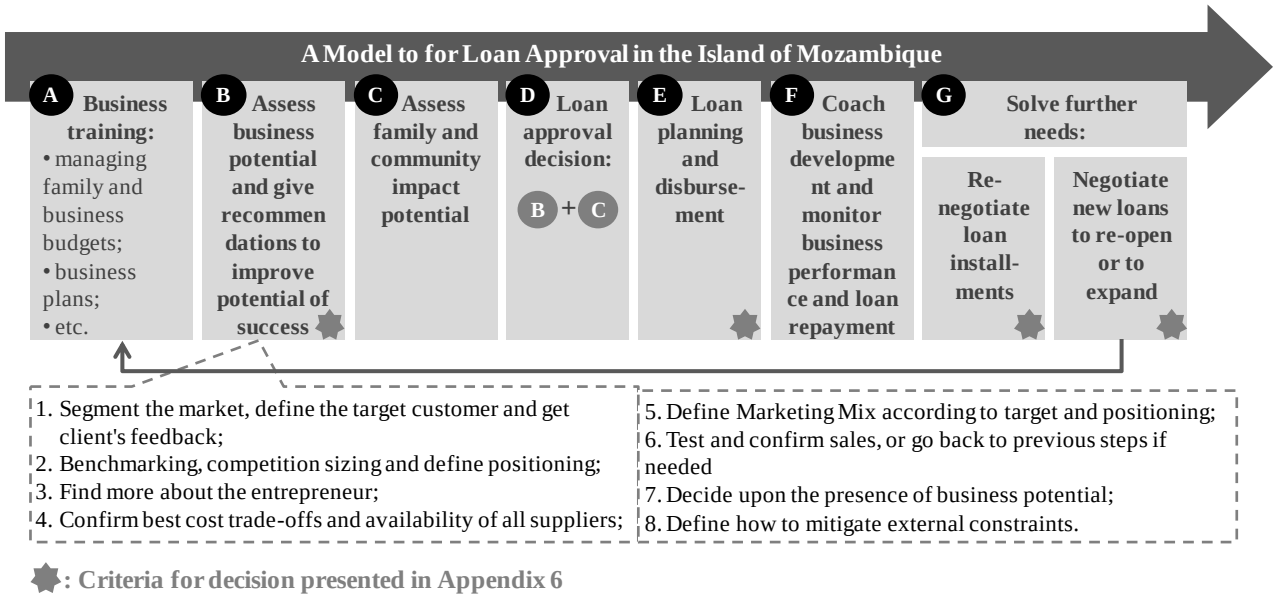

Figure 3: A Model for micro-loan approval in the Island of Mozambique

Putting together the findings in chapter 5, and relating important variables with each other, it was possible to particularly add value to stage (B), building a model to screen and improve business potential in the context, which was the desired output of the study.

In each of the previous steps, the NGO must decide if it is worthy to go forward to the next step. To support decision in each step, the model simultaneously provides criteria that shall be had in account lightly/heavily/as key indicators of potential success/no-success of the business, and it also alerts for decisions that must be taken throughout the process. From step (B.3) onwards, criteria depend on loan purpose: to finance a start-up or the expansion of a business.

6.3. Model assumptions and implementation recommendations for Move

The model assumes that the decision maker for loan approval is Move, but the entrepreneur is the one in charge for the development of the business activity. Therefore, the model

encompasses some implementation recommendations for Move: (1) to get outside the building when making due diligence: spend time watching current businesses, talking to everyone who may give a useful insight about the entrepreneur and the possibilities to create value in the business; (2) the stage of coaching business development and monitor business performance (F) is crucial to improve probabilities of success: the sample shows that management capabilities of entrepreneurs in this context are poor, meaning they need support in managing family and business budgets (prevalently managed together), executing business plans, complying with commitments and plans, and developing saving and planning habits.

7. Conclusions

The present study tried to detect the key factors for the survival and growth of micro and small enterprises receiving a loan in the IM, compared to developed countries. The variables found in literature and in the fieldwork were studied in a sample of fifteen successful businesses supported by Move in that context, with a control group of the same size. The sample was below the size needed to allow a statistically significant generalization of the KSF that cause start-ups or expanding businesses to flourish in this context, or the exact key blocking factors that are preventing businesses from surviving and scaling-up. Conclusions should, thus, be seen as findings from common factors across case-studies, and not as the result of an econometric methodology. A more rigorous and deeper study would imply a larger sample that could allow significant correlations between variables.

7.1. Main findings and outputs

A number of findings about the sample trigger the need for further research, for having the potential to be relevant in understanding the factors affecting business performance in the IM:

A) Overall: (1) selling services allowed a higher probability of success than retailing products; (2) differentiation seems to be very important for business success if an entrepreneur is selling essential commodities in an overcrowded market; (3) bringing novelties into the market may bring high risk but also high return: novelties can be a key success factor in non-basic needs' markets; (4) the definition of a realistic and adjustable value of micro-loan instalments seems to play a critical role in business success; (5) it is hard to accurately estimate sales before start selling a product for a first time (suggesting the need for testing sales) but, also when the business already exists, growth expectations tend to be overestimated (which should be

reflected in highly pessimistic financial projections when business planning); (6) verifying costs and suppliers before loan disbursement is needed not only when starting-up, but also if expanding, due to the high volatility of prices and suppliers; (7) having other sources of income besides the business developed with the loan can be a liquidity advantage in initial stage, but a diffusion of efforts if expanding.

B) At initial stage: (1) re-opening businesses tends to be risky, especially if the business previously shut down due to low profitability or other endogenous factors; (2) feedback from clients seems to be needed in order to successfully differentiate or bring novelties to the market; (3) entrepreneurs' planning and saving habits, as well as completing secondary schooling, positively affect business success probabilities; (4) schemes to mitigate exogenous risks, such as other sources of income or credit, and costs' confirmation, positively affect business performance; (5) half of the businesses had low margins, of less than 33%, which makes costs savings very relevant, either through scale, purchasing outside the IM, tax savings, or others; (6) communication is important at a launch stage but resources are often wasted in non-targeted communication that is not reaching a large percentage of potential clients.

C) At expansion stage: (1) financing the expansion of businesses seems to be less risky than financing start-ups; (2) belonging to professional associations benefits success; (3) businesses in expansion have higher margins than start-ups, but not from scale economies.

The KSFs and KUFs found in the sample confirmed most of what was driven from the literature and Move's experience. The factors most forcefully indicated as key for business success were those related to (1) marketing dimensions: going for products with local demand and offering products with quality-price ratios adapted to the target market; (2) skills of the entrepreneur: technical knowledge, experience, commitment and saving habits; and (3) in an initial stage of the business, having tools to mitigate external risk, such as having access to other sources of money: financial services or a second job besides the business developed with the loan. Management skills and marketing variables come together as the main KSFs for a same entrepreneur in 60% of successful cases, demonstrating that both are conditions for success, and not one alone can guarantee businesses to survive and grow.

The three fields most often indicated as key for lack of success were related to (1) exogenous constraints (40%), (2) the entrepreneur (40%): no compliance with schedules, inability to

repurchase materials and no technical knowledge, and (3) marketing dimensions (20%): selling products with no local demand, no differentiation and poor quality, without confirming costs and the availability of suppliers previously to loan disbursement, and lack of communication.

Conclusions about the variables researched allowed the development of a model that shows how those variables relate to each other and can be used as a tool for Move to screen business potential of micro and small enterprises applying for a loan in the IM, and to support their business development process. The model was developed under the assumption that small entrepreneurs can hardly change contextual constraints, but, with the support of NGOs, may mitigate them and may control endogenous factors that were found to affect business success. Exogenous constraints may still cause the business to fail. The model does not ensure or compute the probability of a business' success, but it aims at increasing that probability.

The main difference of the model from those designed for start-ups in developed countries is related to the product development process, placing the optimal model for the IM in a mid-point between the product development model and Blank's customer development model.

7.2. Main limitations

The application of the model may be very time consuming, especially given that Move's volunteers, shifting every semester, may not spend enough time in the field to gain efficiencies in executing the process. However, time spent in the business field is exactly one of the recommendations of the model to improve the probabilities of success of a project, and it is coherent with Move's vision: impact over outreach. The incremental success rate obtained from using of the model (not quantified in the study) would determine until what extend would time invested in the application of the model pay-off. In any case, the model may be dropped out in the middle of a due diligence if it early shows that the business has no potential or needs a radical transformation.

As limitations of the research, besides the small size of the sample, it would also be important to highlight that the analysis and the model were developed for several business activities together, without discriminating how conclusions would differ among industries.

7.3. Further Research

Further empirical research would be needed to (1) redesign the study with a larger sample for each business life stage, (2) establish correlations among variables in order to understand

causality or independency betweens variables, (3) understand how the applicability of conclusions and usage of the model should differ across business sectors, and (4) verify if the application of the output model throughout the business development stages would in fact increase the chances of businesses to sustainably last and grow, (5) not only in the IM but also in other developing regions. (6) A deeper study could also include different success scales: the study was done following a simplified approach to determine business success (survival and growth), but it does not allow understanding degrees of success, which is, different business survival periods and diverse scales of expansion.

Other next steps would also be needed to exploit some of the conclusions presented: (7) Costs savings are important, but what are the best strategies to lower costs? In particular, do professional associations allow cost savings? (8) Given the importance of a cost-effective communication, what would be the best communication strategies in the IM? (9) At expansion stages, what should MFIs preferentially finance: mechanisms to lower costs or to increasing sales? (10) Marketing was found as a relevant topic in the study, but how did entrepreneurs in the sample identify unfulfilled needs in the market (which is the point of departure to find differentiation opportunities)? Almost all entrepreneurs benchmarked, feedback from clients is only clear in an initial stage, and the study misses other potential sources to identify unfulfilled needs in the market. (11) What are the best differentiation strategies for this context? Do they depend on business activities? (12) Cost advantage and differentiation in product, service or location emerge as advantageous factors for some businesses in the sample, but how are entrepreneurs more successfully creating value: increasing the value of the product for the customer, or decreasing costs?

7.4. Relevance of the study

The exploitation of conclusions and fine-tuning of the model presented in this report may add value to the literature regarding business development in LDCs. Most important, the model may ease MFIs and other NGOs' daily work in screening business potential of micro and small enterprises applying for a loan in the IM, and increase their impact in improving entrepreneurs and their families' welfare thanks to an increase in the income available. The present study is a Management complement to Microfinance.

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9. Acronyms

CAPEO: Ouagadougou Support Unit for Small Businesses

GDP: Gross Domestic Profit

GNI: Gross National Income

HDI: Human Development Index

IM: Island of Mozambique

INE: Instituto Nacional de Estatística, Moçambique (Statistics National Institute of Mozambique)

KSF: Key Success Factor

KUF: Key No-success Factor

LDC: Less Developed Countries

MFIs: Micro Finance Institutions

MSMEs: Micro, Small and Medium Enterprises

MVP: Minimum Viable Product

NGO: Non Governmental Organization

OCDE: Organisation for Economic Co-operation and Development

SMEs: Small and Medium Enterprises

SUBs: Successful and Unsuccessful Businesses

UNCTAD: United Nations Conference on Trade and Development

UNIDO: United Nations Industrial Development Organisation

WB: The World Bank

A Work Project presented as part of the requirements for the Award of a Master's Degree in Management from the NOVA School of Business and Economics

APPENDIXES

A MODEL TO SCREEN AND IMPROVE BUSINESS POTENTIAL OF MICRO AND SMALL ENTERPRISES IN DEVELOPING COUNTRIES:

EVIDENCE FROM THE ISLAND OF MOZAMBIQUE

Ana Margarida Marcos

#1452

A Project carried out on the Management course, under the supervision of:

Prof. Miguel Alves Martins

May 30th 2014

Table of Contents

2. Literature Review

Appendix 2.1: Enterprise typology

Table 1: Differentiation among enterprise typology

	Income-generating activity	Microenterprise	Small enterprise
Entrepreneurs	Main purpose is to acquire subsistence income or complementary income No special competence Self- employment	Acquisition of income through specialized activity Elementary technical competencies Self-employment, sometimes family or apprentices	Entrepreneurial spirit A certain level of expertise Owner/manager, family, apprentices and salaried staff
Activity	Service or tail trade; complementary, temporary or seasonal activity	Main activity very small, sometimes seasonal	Well-defined activity on full-time basis
Regulatory environment	No legal status but pays trade taxes sometimes	No well-defined legal status, but often pays taxes	Rudimentary legislation, often registered (individual enterprise), pays taxes, Membership of professional organizations
Entry barriers	Virtually no barriers to entry No fixed premises (roadside, home or market) No need for capital investment; requiress little strating funds	Elementary technologies Elementary production (little equipment), sometimes without permanent location Need some working capital (stocks raw materials)	Elementary technologies and investment Investment and light equipment (need for electricity) fixed premises Capital required (equipment) and working capital (rent, raw material, etc.)
Development potential	Very low or non-existent. Majority women.	Low or horizontal diversification. Reproduction logic rather than growth logic	Beginning of capital accumulation. Sometimes with growth potential but mainly reproduction logic (family enterprise)
Number of employees	1	1 to 3	3 to 5

Source: CAPEO (1997)

Appendix 2.2: The Product Development Model

The Product development model, somehow passed through by large companies but also by a large part of unsuccessful start-ups, begins with a passion, a vision from the founder, who turns it into ideas and the concept of a product with certain features and benefits. These ideas are put into an early business model, where statistical and market research is used to know who and where customers are. An early positioning and pricing allow a financial plan that is used to pitch the idea to Venture Capitalists (if it is the case of a start-up) or to demonstrate the ROI of the new product (for the case of a large company coming up with a new product).

After the first "talking" Seed stage, a "working" Product Development phase begins, where an Engineering department builds the product following factors such as design, delivery dates and development costs. Marketing refines the market size, often with the help of focus groups which also allows this department to launch Marketing Requirements for Engineering. Marketing also develops sales demos and sales material for a Sales team that is staffed and scaled in the third stage named the Alpha/Beta Test. As the name says, this is the stage where the product benefits are tested by Engineering in a group of outsiders. Marketing develops a communication plan, with Public Relations and branding activities. Sales are reaching the first beta customers, building distribution channels, while the financial department looks for additional capital.

The last stage of the Product Development model – the Launch of First Ship of the product – evolves a high cash burn rate, especially due to Marketing: press, events, and programs to create end-user demand like shows, advertising and emails, according to the communication plan chosen. Sales now have quotes and goals to achieve, and Finance measures the company performance against the business plan written (probably one year) before.

Appendix 2.3: The Customer Development Model and Lean Start-up

The model includes customer discovery, validation, creation and building (Steve Blank, 2005). The Customer Discovery begins with an early production of a basic product come from the founder's vision. This initial product is simply aimed at understanding customers'

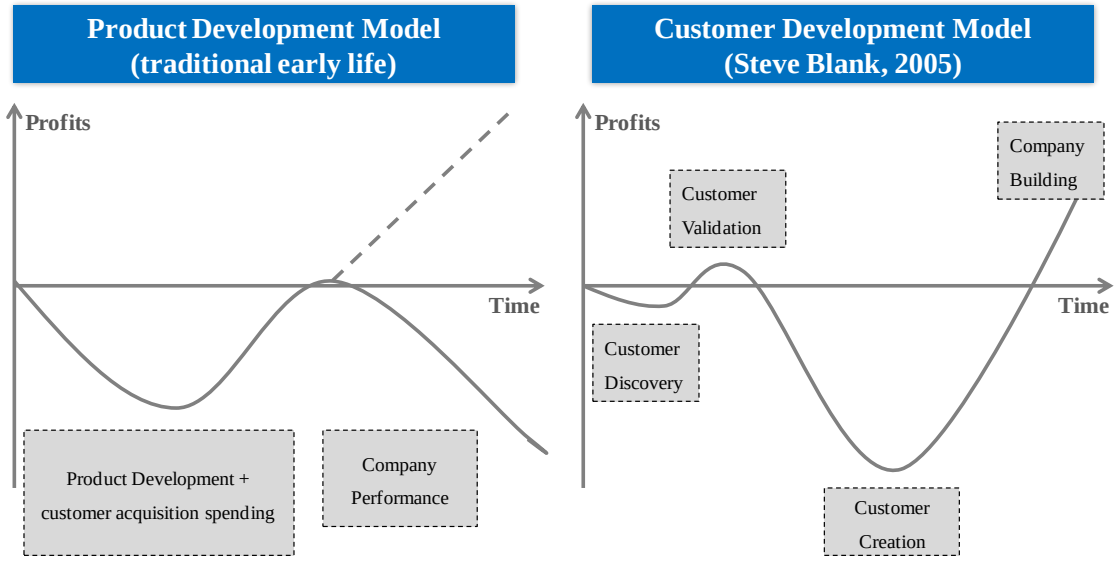
high-value problems and needs: what may people be willing to pay for and how important is the problem the product solves. This requires a continuous talking with only a few customers ("early evangelists") and suppliers, in contrast with a set of focus groups. The next stage, Customer Validation, verifies the market and the profitability of the product by trying to sell the initial product. The test allows entrepreneurs to locate customers who repeatedly buy the product, meet them, understand the perceived value of the product and adjust the initial vision of the product. Additionally, it will enable the establishment of prices and channels, within a sales model that can be replicated. The two first stages are basically of learning and design, not wasting money with the first product without testing it. The organization is not yet designed and focused on execution, although execution is crucial to learn the best.

Customer Creation is the third stage, where Marketing spending is aimed at creating end-user demand and which value depends on the knowledge customers already have about the product (not all start-ups are the same). Finally, the Company Building phase is, only now, driven to growth and requires considerable amounts of capital. Also, for greater companies, only now are formal departments, like Marketing and Sales, needed to be defined.

Eric Ries (2011)' "lean start-up" model is identical to this one, with short development cycles that eliminate waste and provide rapid market feedback. A "build-measure-learn" feedback loops allows the entrepreneurs to understand the problem that needs to be solved, develop a minimum viable product (MVP) similar to Blank's initial product, measure and learn through cause-effect metrics and finally "pivot or make structural course corrections" to test new product specifications or strategies.

Appendix 2.4: Product Development Model against Customer Development Model profit flows and cash burn

Figure 1: Product Development against Customer Development's Cash Flows.



A graphical scratch interpreted from Steve Blank (2005), *The Four Steps to Epiphany*

3. Methodology

Appendix 3: Success variables analysed in the study

Table 2: The success variables tested in the study

Note: The answers to each business and each variable were found in the original Business Plan of each business or obtained from the Move's volunteer(s) following each business. Hereby, some of the answers (yes/no) may have a certain degree of subjectivity.

Business Dimension	#	VARIABLES	EXPLANATION	VALUES ALLOWED	HYPOTHESIS: ANSWER FOR WHICH THE PROBABILITY OF SUCCESS SHOULD BE HIGHER	SOURCE OF INFORMATION ABOUT THE VARIABLE
Business Activity	1	Activity (sector)	Area of activity of the business	Name	X	Move
Risk	2	Access to financial services?	Would this entrepreneur have access to any other form of formal (informal?) credit, if Move did not exist?	YES/NO	YES	Literature
	3	Other sources of Income?	By the time of beginning the business he was asking the loan for, did the entrepreneur have another job besides that business, or any other source of monthly income? (uncertainty costs)	YES/NO	YES	Move
Network	4	Advantageous networking?	Did the entrepreneur's networking give him business advantage?	YES/NO	YES	Literature
	5	Cooperative or professional association?	Did the entrepreneur belong to a formal or informal cooperative or professional association?	YES/NO	YES	Literature
Management capabilities	6	Educational level?	Did the entrepreneur complete any educational level?	NONE/ PRIMARY / SECOND.	SECON-DARY	Literature
	7	Planning habits prior to Move?	Before the loan from Move did the entrepreneur use to plan his purchases, sales, communication, etc, before executing his business activities?	YES/NO	YES	Literature
	8	Experience in the field business?	Before the loan from Move had the entrepreneur ever worked in the same business he got the loan for?	YES/NO	YES	Literature
	9	Technical knowledge?	By the time of applying for the loan, was the entrepreneur technically expert in the business he asked the loan for?	YES/NO	YES	Literature
	10	Compliance with schedules?	Was the entrepreneur able to be on time and perform specific tasks within deadlines?	YES/NO	YES	Move
	11	Ability to repurchase material?	Before the beginning of the loan, would the entrepreneur be able to save enough money, from his businesses or jobs, to purchase the material needed for the business or have a nest-egg?	YES/NO	YES	Move
	12	Family budget separate from business budget?	Could the entrepreneur separate his family budget and spending from the business costs?	YES/NO	YES	Literature
	13	Motivation to keep the business (re-open if shut down)?	Was the entrepreneur motivated to keep the business or re-open it if it shut-down?	YES/NO	YES	Move

	14	Entrepreneurial skills?	Overall (having in consideration all previous variables regarding management capabilities) was the entrepreneur resilient, pro-active, committed, and a good manager?	YES/NO	YES	---
Loan Purpose and Conditions	15	Novel business or expansion?	The (first) loan was used for the entrepreneur to create a new business, or to expand an existing one?	NEW/ RE-OPEN/ EXPAND	EXPAND	Move
	16	If expansion or re-opening, was the business profitable before the loan?	Did the entrepreneurs have positive profits (even if small) with that business before the loan?	YES/NO	YES	Move
		If novel business, small test prior to "large" microloan?	Did the entrepreneur (with or without the help of Move) pilot-tested the business (with a residual loan or not) to validate demand and profitability?	YES/NO	YES	Literature
	17	Reasonable installments?	The value of the weekly / monthly installment (initially defined in the Business Plan) allowed the entrepreneur to have spare money (from the business income) to cover business and family costs?	YES/NO	YES	Move
	18	No need to renegotiate the loan?	During the period of the repayment of the loan, did Move and the entrepreneur have NO NEED to restructure the amount of the installments and the payment frequency?	YES/NO	YES	Move
Product	19	Product or service?	The business would sell a product or a service?	PRODUCT / SERVICE	SERVICE	Move
	20	If product: transformation?	Did the product sold suffer any transformation process in the hands of the entrepreneur?	YES/NO	YES	Move
	21	Novelty in the market?	Did the business offer a product or service that did not exist before in its target market?	YES/NO	YES	Literature
	22	Essential commodities?	Did the entrepreneur, initially or further on, have to go for basic products to fulfill primary needs?	YES/NO	YES	Literature
	23	Goods in demand?	Were the goods sold in demand (lack of supply) in the specific market (target, location) by the specific time the entrepreneur got in the business?	YES/NO	YES	Literature
	24	Foreign Competition FREE?	Did the product(s) sold by the entrepreneur has got NO foreign competitor in the Island of Mozambique?	YES/NO	YES	Literature
	25	Differentiation?	Did the business have, initially or further on, any differentiation (from the competition) valued by the target market?	YES/NO	YES	Literature

	26	Initial Differentiation?	In the beginning of the loan was the business differentiated in any manner from the competition (price, quality, benefits)?	NONE/ PRICE/ QUALITY/ LOCATION/ DISTRIBUTION/ AVAILABILITY/ NEW PRODUCTS/ OTHER BENEFITS	N/A	Literature
	27	Further Differentiation?	Was there a need to differentiate the product some weeks / months after the beginning of the loan?	NONE/ PRICE/ QUALITY/ LOCATION/ DISTRIBUTION/ AVAILABILITY/ NEW PRODUCTS/ OTHER BENEFITS	N/A	Literature
	28	Product Quality?	Did the products sold have good quality (in the target market's perspective)?	YES/NO	YES	Literature
	29	Service Quality?	Was the entrepreneur focused on customer needs and making the purchase moment an easy and "enjoyable" moment (e.g. would he explain the product features if customers had questions? would he offer a plastic bag if needed? would he serve customers on time and give the change correctly and on time?)	YES/NO	YES	Literature
Business planning	30	Client's feedback?	Did the entrepreneur (and/or Move) get feedback from existing/potential clients about the business before expanding/launching it?	YES/NO	YES	Literature
	31	Benchmarking?	Did the entrepreneur (and/or Move) compare the product, prices and location to competitors before the beginning of the loan?	YES/NO	YES	Literature
	32	Competition sizing?	Did the business plan include the number of competitors?	YES/NO	YES	Move
	33	Market share estimation?	Did the business plan include an estimation of the market share (expected sales of the entrepreneur over total demand)?	YES/NO	YES	Move
	34	Accurate sales estimation?	The sales (number of goods sold) estimated in the business plan (size of target market + market share + threats + opportunities) were attained after the beginning / expansion of the business?	YES/NO	YES	Move
Prices and Costs	35	Tax /licenses FREE?	Was the business free of profit and labour taxes, or licenses and permits (excluding taxes related to the loan and VAT)?	YES/NO	YES	Literature

	36	Local raw materials?	Did the entrepreneur have local suppliers (versus: he purchased from another city / country)?	YES/NO	YES	Literature
	37	High-scale?	Did the business size allow for scale economies?	YES/ NO/ YES IN COOPERATIVE	YES	Literature
	38	Cost confirmation?	Did the entrepreneur or Move confirm ALL business costs previously to the disbursement of the loan? (Including electricity, transports, etc.)	YES/NO	YES	Move
	39	Suppliers' confirmation?	Did the entrepreneur or Move confirm that suppliers (of both fixed and variable costs) were the best (in terms of price, quality or location, depending on business needs) and were available?	YES/NO	YES	Move
	40	Adapted price?	Did price cover costs and was adapted to the willingness and ability to pay of the target market (versus: the target market would not buy the product because it was too expensive)?	YES/NO	YES	Literature
	41	Equal pricing?	Would the entrepreneur charge the same prices to different targets for the same product (e.g. tourists and locals)? (versus multiple pricing)	YES/NO	YES	Move
	42	Large unitary variable margins?	Were unitary margins (revenues - variable costs) larger than 33%?	YES/NO	YES	Move
Communication	43	Initial communication	Was any communication done in the beginning of the business (e.g. leaflets, posters, radio or other ways of talking to potential customers)?	YES/NO	YES	Move
	44	Further communication?	Was any communication done some weeks or months after the beginning of the business (e.g. leaflets, posters, radio or other ways of talking to potential customers)?	YES/NO	YES	Move
	45	Well defined communication target?	Did the entrepreneur and Move have a specific target market in mind when communicating the product?	YES/NO	YES	Literature
	46	Communication getting to target?	Was a large proportion of the target market receiving the communication of the product?	YES/NO	YES	Literature
Channels	47	Direct marketing approach?	Knocking door-to-door selling or wholly owned retail outlet (cutting costs of middlemen bottlenecks)?	YES/NO	YES	Literature
	48	Accessible business location?	Was the business location easy to access for the target customers?	YES/NO	YES	Literature
External constraints	49	External factors destroying the business?	If the business was not successful, was it an external constraint that caused the business to shut down?	YES/NO	N/A	Literature
KSF		Reason of Success?	If the business was successful, what was the main driver of its success?	Open answer	N/A	---
		Reasons for lack of success?	Why the business did not survive / did not grow / did not grow more?	Open answer	N/A	---

4. The Island of Mozambique – Overview of External Factors Affecting Business

Appendix 4.1: Economic growth and Industries in Mozambique

The economy of Mozambique has been growing at an annual rate of 7% to 8.5% in the last five years (ES Research, 2013). This growth in the GDP has most strongly been driven by the extractive industry, but also heavily by the sectors of transport and communications, financial services, electricity and water (INE, 2013), as seen in table 3. Agriculture and Fishery, with the highest weight in the country's GDP, 31.5% (ES Research, 2013), have yet been decreasing their role in the economic growth. Finn Tarp, of the Development Economic Research Group (DERG) of the University of Copenhagen, confirms that "economic transformation in agriculture and in manufacturing industry is not happening in Mozambique".[1]

Table 3: Real GDP Growth in 3rd quarter of 2013 by sector (percent y-o-y).

	3th quarter 2012	3th quarter 2013
Agriculture	8,3	5,8
Fishery	12,4	6,9
Extractive industries	42,5	21,4
Manufacturing industry	1,6	1,6
Electricity and water	-7,4	11,5
Construction	4,9	7,8
Trade and services	4,1	7,5
Hotels and Restaurants	2,3	4,2
Transport and communications	10,4	18,4
Financial services	18	10,3
Real estate and services to businesses	7,1	0,6
Public administration	11,2	3,6
Other services	2,4	0,2
Total GDP Growth	**7,1**	**8,1**

Source: INE, 2013

[1] www.thezimbabwean.co/news/africa/70185/mozambican-growth-has-not-led.html

Appendix 4.2: Firm characteristics in Mozambique

According to a joint research (2013) from the Confederation of Mozambican Business Associations (CTA), the Ministry of Planning and Development (MPD), and the University of Copenhagen, which gathers data from 761 micro, small and medium enterprises from 10 districts (including Nampula), "the data show that, of the 90 micro enterprises surveyed in 2006 six have made the transition to become small companies, while two are now classified as medium companies. On the other hand, of the 92 small companies surveyed in the earlier study, 23 have shrunk and are now considered micro enterprises. 11 grew to become medium companies, while the rest have remained in the category of small companies." "In comparison with other economies in the southern African region, one notes that the degree of survival of small companies in Mozambique is very high" but "stagnation, or the fall of companies to a lower classification".[2]

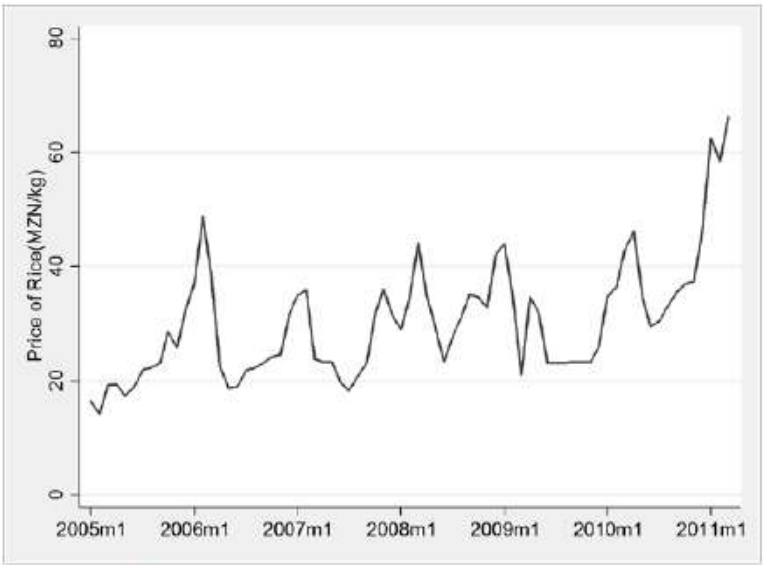
From the total number of Mozambican enterprises, 98,6% were estimated to be micro, small or medium (INE, 2004). They contribute to 42,8% of employment and 60% of GDP (OECD, 2013), while for other developing countries, formal MSMEs represent approximately 45 percent of employment and approximately 33 percent of GDP (McKinsey and Co., 2010).[3]

Appendix 4.3: Volatility of prices in Mozambique

Regarding prices in the country, Mozambique's national inflation rate has dropped from 10,4% in 2011 to 2,7% in 2012, but raised again to 6,9& in 2013 (African Economic Outlook, 2014). Specifically in Nampula, the province of the sample , retail prices of rice during 2005-2011 (figure 2), show a volatility of 0,185, putting it at the 90th percentile in volatility when compared across 167 African staple food prices (figure 3) (price data from FEWS-NET (2011b)[4]. This enormous volatility in the prices makes business returns in the area of the sample very uncertain and unstable.

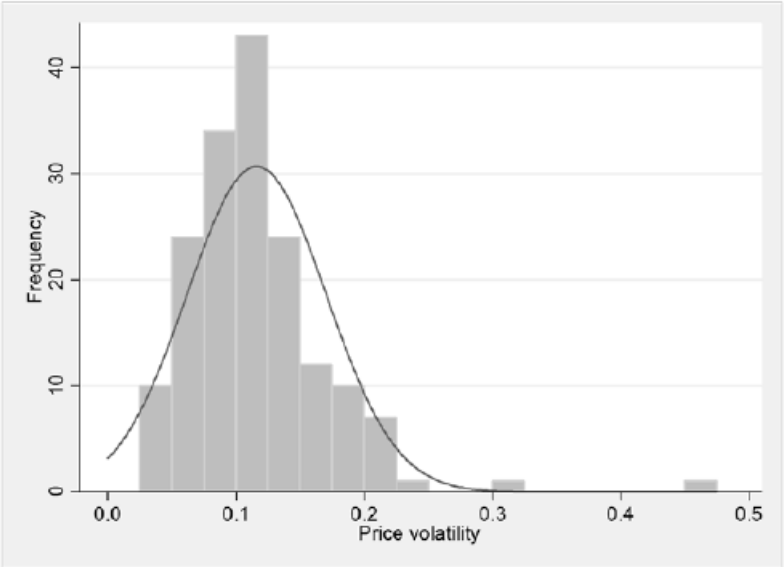
[2] www.trademarksa.org/news/mozambique-growth-has-not-led-economic-transformation
[3] www.mspartners.org/download/Twotrillion.pdf
[4] Food Price Volatility in Africa -. Has it Really Increased?, Nicholas Minot, International Food Policy Research Institude, December 2012.

Figure 2: Retail price of rice in Nampula (Mozambique)



Source: Analysis of price data frpm FEWS-NET (2011b)

Figure 3: Distribution of volatility across 167 African staple food prices



Source: Analysis of price data from FEWS-NET (2011b)

Appendix 4.4: Purchase power in Mozambique

Although being one of the fastest growing economies in the world, people in Mozambique are still among the poorest. Mozambique's HDI for 2012 is 32,7% (185th out of 187). When this value is discounted for inequality, the HDI falls to 22%. The loss due to inequality in the distribution of income is 37% (7% more than the average Sub-Saharan countries), indicating that purchase power in poorer areas in Mozambique is dramatically low. Looking at the percentage of families in the Island of Mozambique owning durable goods (radio, television, telephone, computer, car, motorcycle and bicycles), 54,5% of the families do not own any of those goods, compared to 32,8% in the nearest large city, Nampula (see table 4). Only 38,8% of families in the Island have a radio (INE, 2007). These numbers raise a strong possibility that, in the context of the sample, it may be hard for locals to buy goods such as food and hygiene, which in developed countries are considered of low involvement purchasing decision.

Table 4: Percentage of households by district, according to possession of durable goods.

Province of Nampula, 2007

Districts	Durable Goods							
	Radio	TV	Landline phone	Computer	Car	Motorbike	Bicycle	Any durables
Total	46,4	4	0,4	0,3	0,6	2,4	35,2	41
Nampula	60	24,3	2,3	2,3	3,8	6,3	20,5	32,8
Angoche	44,3	2,2	0,3	0,1	0,2	2,1	38	40,8
Namapa-Erati	36,9	0,4	0,1	0,0	0,1	0,7	34,7	48,4
Island of Moz.	38,8	9,3	0,6	0,3	1	3,9	19,2	54,5

Source: INE 2007

Appendix 4.5: Taxes in Mozambique

The Doing Business rank from the World Bank places Mozambique in 127 out of 167 for the indicator "Paying Taxes". Table 5 shows that the average total tax rate is of 37,5% - below the average for OECD - but the number of tax payments exceeds the OECD in 15 payments per year, and it takes more 55 hours than in OECD countries to pay all taxes in one year.

Table 5: Tax payment in Mozambique compared to Sub-Saharan Africa and OECD

	Mozambique	Sub-Saharan Africa	OECD
Payments (number per year)	37	38	12
Time (hours per year)	230	314	175
Profit tax (%)	30.9	18.4	16.1
Labor tax and contributions (%)	4.5	13.7	23.1
Other taxes (%)	2.1	21.3	2.0
Total tax rate (% profit)	37.5	53.3	41.3

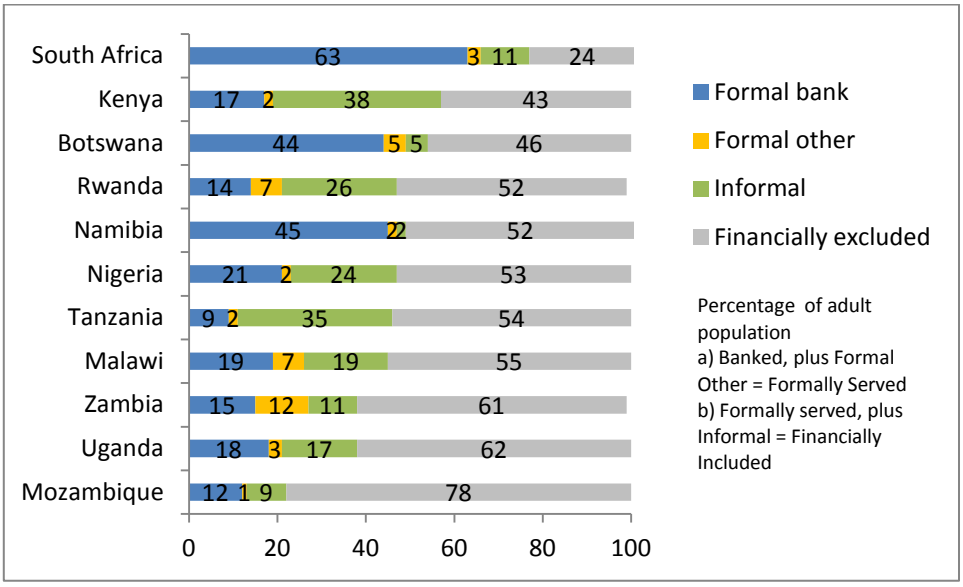
Source: Doing Business, The World Bank, 2014[5]

Appendix 4.6: Access to Financial Services in Mozambique

A study from Mckinsey and Company has concluded that more than 85% of micro and informal enterprises in Sub-Saharan Africa need but have neither a loan or a overdraft. FinScope's report for the Mozambican Government in 2009 has concluded that only 22% of the population had access to formal or informal financial services, about half the average of other similar Sub-Sahara African countries, as detailed in figure 4. The government acknowledges that MSME's have less access to credit than large companies, especially in rural areas, where there are only 0,6 bank agencies per 100.000 adults. Therefore, better access to credit for MSME's has a relevant place in the Financial Sector Development Strategy for 2013-2022.[6]

[5] www.doingbusiness.org/data/exploreeconomies/mozambique
[6] www.mf.gov.mz/c/document_library/get_file?p_l_id=11402&folderId=12905&name=DLFE-6001.pdf

Figure 4: Access to credit in Sub-Sahara African countries

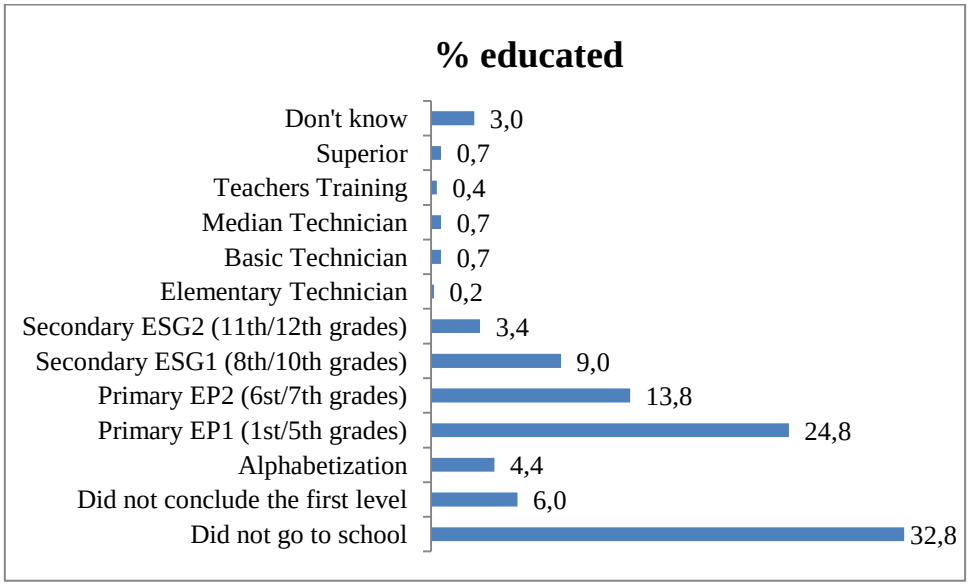


Source: FinScope, 2009

Appendix 4.7: Education in Mozambique

From the over-5-years-old population of the Island of Mozambique, the data from INE 2007 indicates that about 80% has got no educational level completed, 13,7% has completed primary school and 5,8% the secondary school. Only 0,1% of the population has got a superior degree of education (bachelor, etc.). These numbers are lower than in urban centres (e.g. 20% of the population from Nampula has a secondary degree) but are slightly better than other less developed districts within the province of Nampula (e.g. in the district of Angoche, 88% of the population never went to school). On a national scale (figure 5), about 33% of the population never went to school, 13,9% completed primary school, and 3,4% secondary school and 0,7% superior education (FinScope, 2009).

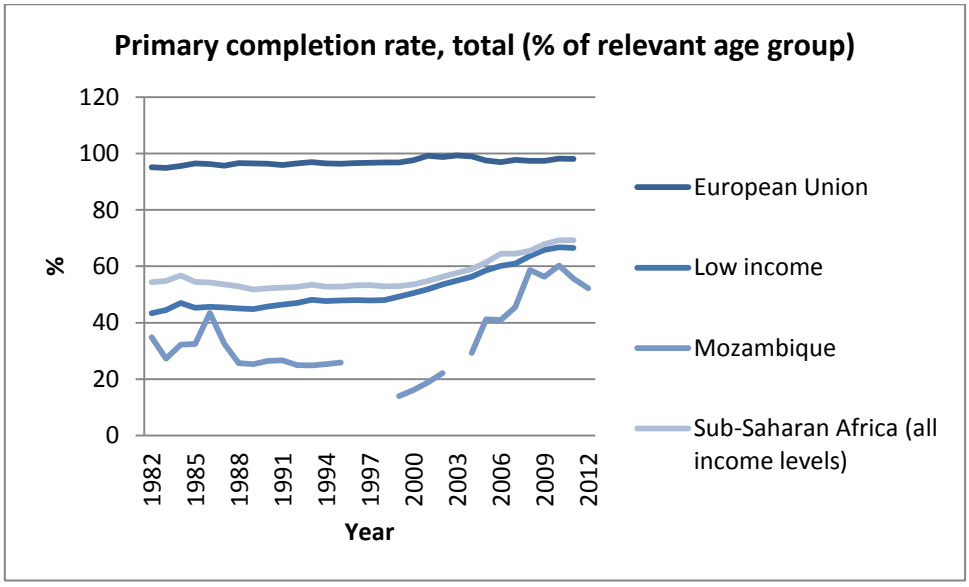
Figure 5: Education levels in Mozambique



Source: FinScope, 2009

These numbers are, however, likely to improve. The numbers from the World Bank throughout the last three decades (figure 6)[7] show a positive trend in the number of people completing primary school, finally getting close to the numbers in the Sub-Saharan Africa.

Figure 6: Primary completion rate in Mozambique



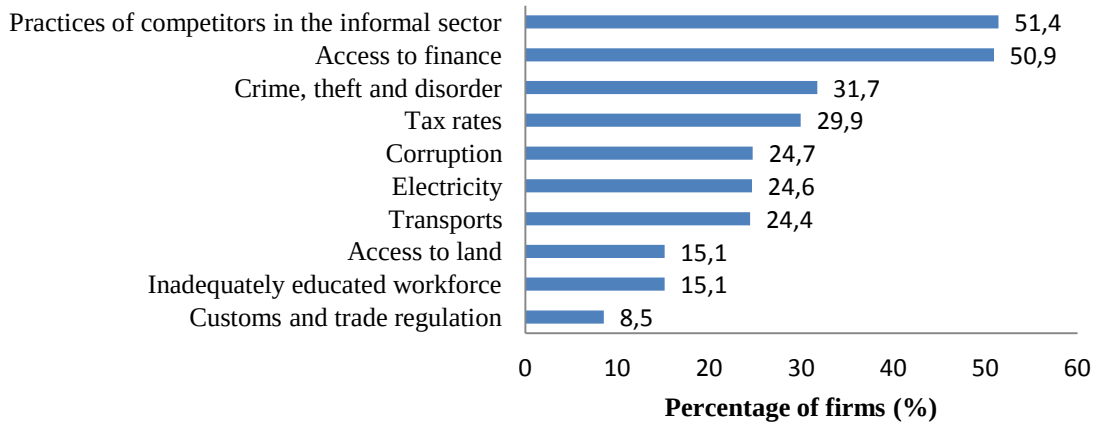
Source: The World Bank, 2012

[7] http://data.worldbank.org/indicator/SE.PRM.CMPT.ZS/countries/MZ-ZF-XM?display=graph

Appendix 4.8: Main Constraints for Business Success from managers' perspective in Mozambique

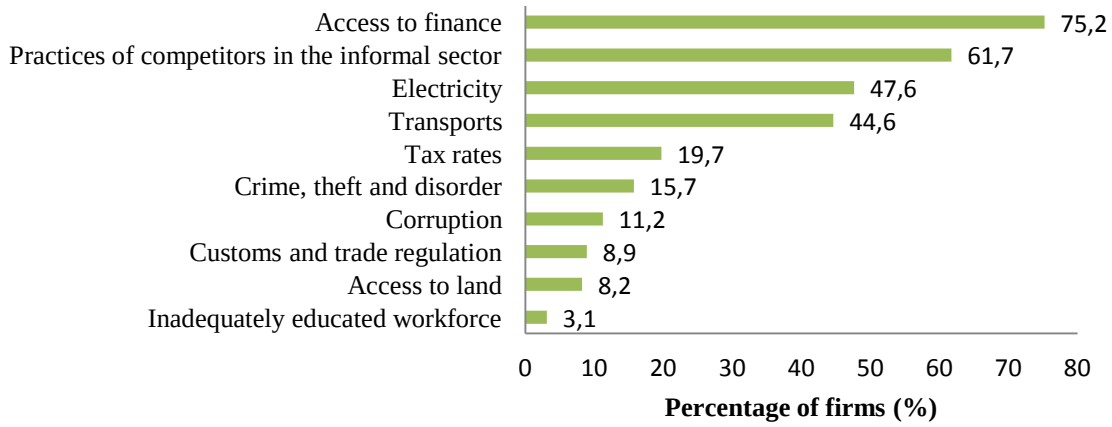
"After being presented with a list of 15 business environment obstacles, business owners and top managers in 479 firms were asked to choose the biggest obstacle to their business" (The World Bank, 2013).

Figure 7: Top 10 Business Environment Constraints for Small Enterprises in Mozambique



Source: Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

Figure 8: Top 10 Business Environment Constraints for Enterprises in Nampula, Mozambique



Source: Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

Appendix 5.0.2: Ranks of KSFs and KUFs (considering the top factors)

Table 6: Key Success Factors (top factors: more than one)

Variables	KSF
Goods with local demand	8
Technical knowledge	7
Experience in the field business	4
Compliance with schedules	3
Service Quality	3
Access to financial services outside Move	3
Novelty	2
Price/quality Ratio	2
Product Quality	2
Other sources of Income	1
Ability to repurchase material	1
Equal pricing	1

Table 7: Key Non-Success Factors (top factors: more than one)

Variables	KUF
External factors destroying the business	6
No compliance with schedules	4
No ability to repurchase material for the business	4
No technical knowledge	3
Goods with no local demand	3
No differentiation	3
Product with poor quality	2
No cost confirmation	2
No supplier's confirmation	2
Service with poor quality	1
No further communication	1
Not correct distribution channels	1
Unreasonable instalments	1

Appendix 5.0.3: Rank of KSFs and KUFs (grouping variables in business dimensions and considering only one factor for each business)

Table 8: Key Success Factors (top one factor)

	KSF
MARKET	47%
ENTREPRENEUR	53%

Table 9: Key Non-Success Factors (top one factor)

	KUF
MARKET	20%
ENTREPRENEUR	40%
EXOGENOUS	40%

Appendix 5.1.1: Sample results for "Business Activity" variables

Table 10: Composition of successful and unsuccessful businesses' samples according to "Business Activity" variables

Activity	Sample Size	Sample Relative Size	Composition of the sample "Successful"	Composition of the sample "Unsuccessful"	Probability of Success
Aviculture	4	13%	20%	7%	75%
Retailing of consumables (no production)	14	47%	27%	67%	29%
Hairdressing	5	17%	27%	7%	80%
Durables (production, retailing and services)	3	10%	7%	13%	33%
Baking	2	7%	7%	7%	50%
Accommodation	2	7%	13%	0%	100%
TOTAL	**30**	**100%**	**100%**	**100%**	

Due to its size, the sample is not conclusive about the type of business activity affecting the probability of success of businesses. The sample presents only 2 to 3 samples of businesses in Accommodation, Durables and Baking. For the three other types of groups of activities in the sample, the numbers may be slightly more significant. The sample of success cases presents 20% of Aviculture activities, 27% of Retailing of Consumables (with no production) and 27% of Hairdressing. Among the cases without success, 67% were related to the Retailing of Consumables (with no production), suggesting that this may be a risky activity. It may be dangerous, however, to trust the numbers as an indication that raising chickens or cutting hair are safe businesses in the IM: there is the chance that these were activities requiring a highest initial capital than others, and therefore there was still demand without supply by the time of the loan. That could mean that, after these players have got into the market, demand is already satisfied and new entrants would have harder challenges to gain market share.

Appendix 5.2.1: Sample results for "Product and Demand" variables

Table 11: Composition of successful and unsuccessful businesses' samples according to "Product and Demand" variables

		Product or service?	If product: transformation?	Novelty?	Essential commodities?	Goods with local demand?	Foreign Competition FREE?*	Differentiation?	Product Quality?	Service Quality?
		PRODUCT	YES	YES	YES	YES	YES	YES	YES	YES
EXPANSION	SUC.	45%	36%	0%	36%	91%	82%	73%	100%	100%
	UNSUC.	100%	50%	0%	25%	50%	100%	75%	75%	75%
INITIAL	SUC.	75%	50%	50%	25%	75%	100%	75%	100%	100%
	UNSUC.	91%	55%	18%	36%	55%	73%	64%	91%	73%
TOTAL	SUC.	53%	40%	13%	33%	87%	87%	73%	100%	100%
	UNSUC.	93%	53%	13%	33%	53%	80%	67%	87%	73%
	TOTAL	73%	47%	13%	33%	70%	83%	70%	93%	87%

*Foreign competition is not strong in the island among essential goods, existing only for products that are not cheaply produced in the country (e.g. rice, oil, detergent, candies). In the IM, the competition that may be stronger from other countries is that related to accommodation or high-end restaurants.

Successful differentiations

Novelties bring a high level of risk (fewer benchmarking possibilities, so the entrepreneurs must put an early product in the market and check if there are enough customers paying for it; it can be a great disaster or a great success) and there are only four cases in the sample, among which half of them were not successful due to external factors and bad management. But for the two success cases, the fact of being first entrants in the market was the key success factor.

Overall, product and service quality do not seem to be particularly differentiated for successful against non-successful enterprises. All successful products were said to have good

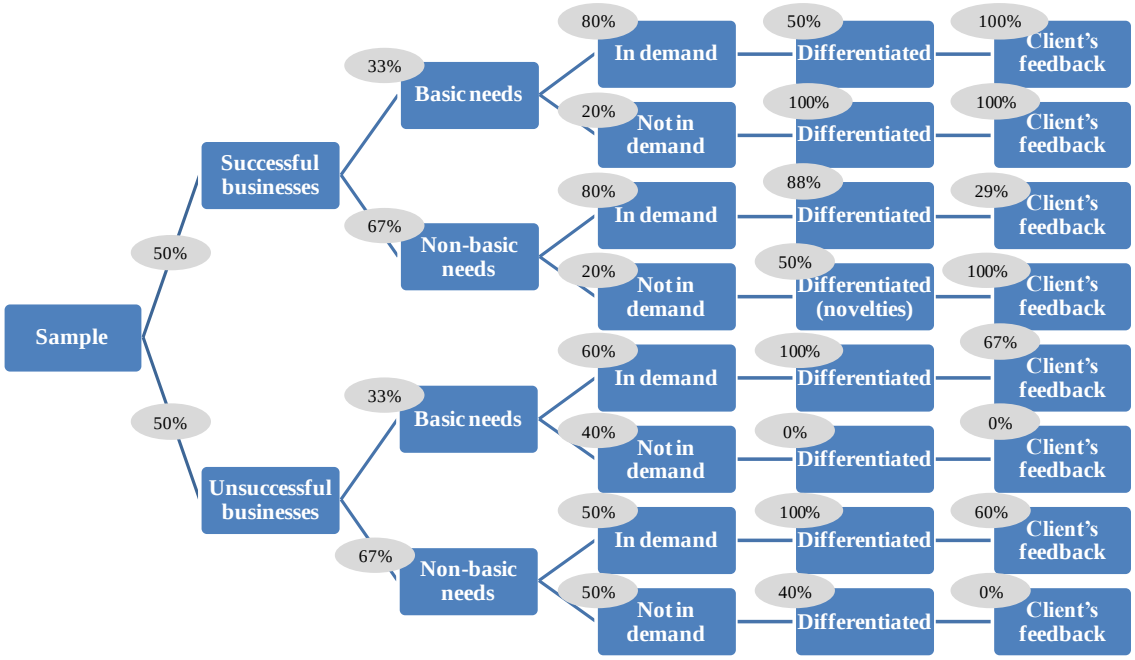
quality in the target market's perspective, but also 87% of unsuccessful did. From the insight of Move volunteers, many products did not have as much quality as in developing countries, confirming what Aneel Karnani says about poor people: "they cannot afford the same quality products as the rich; they have a different price-quality trade-off" and thus "the poor do like inexpensive, low-quality products" (2006). However, service quality[8] emerges as a KSF for two entrepreneurs, product quality for two, product-price ratio for two, and equal pricing for one entrepreneur. Product and service quality may be relevant for certain business activities, although the size of the sample is not enough to establish a correlation. Niche markets may still remain unexplored, but that would require further research within each business activity.

Location and constant availability seem to be a differentiation valued by customers, as eight entrepreneurs were successful for being in a location where supply did not satisfy demand.

[8] The study considered the existence of "service quality" when the entrepreneur was focused on making the purchase moment an easy and enjoyable moment (e.g. have a well presented point of selling, explain the product features if customers have questions; offer a plastic bag if needed; serve the customer on time and give the change correctly and on time; have the product constantly available).

Appendix 5.2.2: Relationship between product type and differentiation

Figure 9: Relationship between the needs solved by the products sold, demand fulfilment and differentiation levels for successful and non-successful businesses



Appendix 5.3.1: Relationship between business life stage and business success

Table 12: Composition of each loan purpose sample according to business success

Loan Purpose	Sample Size	Sample Relative Size	Composition of each Loan Purpose sample according to business success or non-success		
EXPANSION	15	50%	SUCCESSFUL	11	73%
			UNSUCCESSFUL	4	27%
RE-OPEN	5	17%	SUCCESSFUL	1	20%
			UNSUCCESSFUL	4	80%
NEW	10	33%	SUCCESSFUL	3	30%
			UNSUCCESSFUL	7	70%
Total	30	100%		30	

Appendix 5.3.2: Sample results for "Loan Conditions" variables

Table 13: Composition of successful and unsuccessful businesses' samples according to "Loan Conditions" variables

		Reasonable instalments?	No need to re-negotiate the loan?
		YES	YES
EXPANSION	SUCCESSFUL	73%	45%
	UNSUCCESSFUL	50%	0%
INITIAL	SUCCESSFUL	100%	50%
	UNSUCCESSFUL	36%	9%
TOTAL	SUCCESSFUL	80%	47%
	UNSUCCESSFUL	40%	7%
	TOTAL	60%	27%

The value of the weekly or monthly instalments defined in the loan plan of all successful entrepreneurs allowed them to have spare money, from the business income, to cover business and family costs. Unsuccessful businesses were not as fortunate and only 36% had initially defined reasonable instalments. The agreement upon unreasonable instalments was due to non-accurate sales estimations and other factors that were not taken into account while business planning. This partially caused most unsuccessful entrepreneurs to have the need to renegotiate the value of instalments and payment frequency during the reimbursement period. Even though, also half of successful businesses did not perform exactly how it was expected in the business plan (due to endogenous and exogenous obstacles) and benefited from Move's flexibility concerning the frequency and the values of the payment.

In an expansion stage, 73% of successful businesses had a loan financial plan where the value and frequency of instalments allowed them to have spare money to cover business and family costs. Half of the control group did not have such realistic financial plan and 100% of unsuccessful entrepreneurs needed to renegotiate the loan repayment plan with Move. This shows that expansion expectations were probably too optimistic.

Appendix 5.4.1: Sample results for "Business Planning" variables

Table 14: Composition of successful and unsuccessful businesses' samples according to "Business Planning" variables

		Client's feedback?	Benchmarking?	Competition sizing?	Market share estimation?	Accurate sales estimation?
		YES	YES	YES	YES	YES
EXPANSION	SUC.	45%	100%	91%	27%	55%
	UNSUC.	25%	75%	50%	25%	0%
INITIAL	SUC.	75%	100%	75%	25%	50%
	UNSUC.	36%	100%	55%	18%	0%
TOTAL	SUC.	53%	100%	87%	27%	53%
	UNSUC.	33%	93%	53%	20%	0%
	TOTAL	43%	97%	70%	23%	27%

Appendix 5.6.1: Sample results for "Management Capabilities" variables

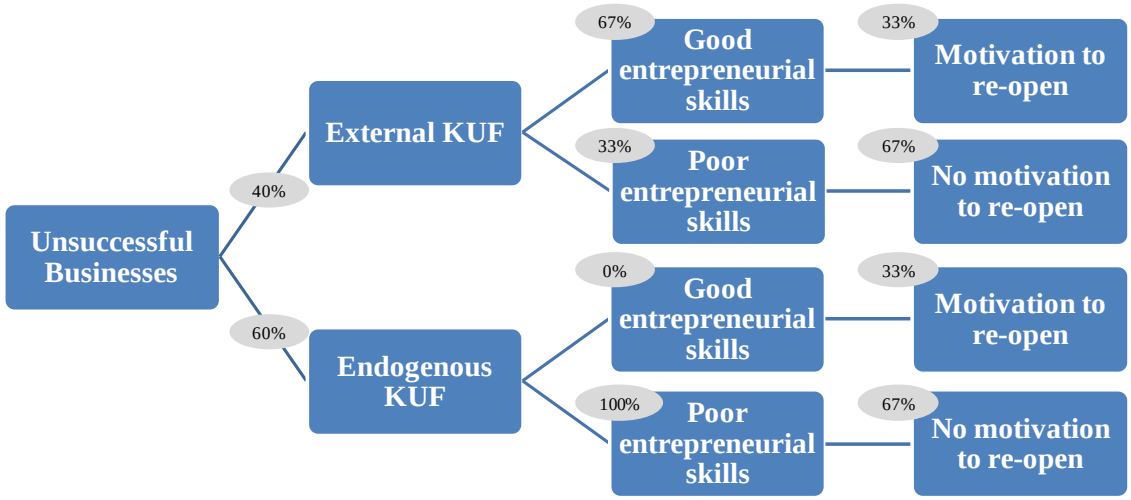
Table 15: Composition of successful and unsuccessful businesses' samples according to "Management Capabilities" variables

		Educational level?	Planning habits prior to Move?	Experience in the field business?	Tech. knowledge?	Compliance with schedules?	Ability to repurchase material?	Family budget separate from business budget?	Motivation to keep the business (re-open if it shuts down)?	Entrepreneurial skills?
		SEC.	YES	YES	YES	YES	YES	YES	YES	YES
EXPANSION	SUC.	0%	55%	100%	100%	82%	73%	0%	100%	73%
	UNSUC.	0%	50%	100%	75%	50%	50%	0%	75%	50%
INITIAL	SUC.	75%	75%	50%	75%	75%	100%	0%	100%	100%

	UNSUC.	45%	18%	55%	45%	55%	18%	0%	36%	18%
TOTAL	SUC.	20%	60%	87%	93%	80%	80%	0%	100%	80%
	UNSUC.	33%	27%	67%	53%	53%	27%	0%	47%	27%
	TOTAL	27%	43%	77%	73%	67%	53%	0%	73%	53%

Appendix 5.6.2: Key causes for business lack of success

Figure 10: Key causes for lack of success in the sample



Appendix 5.6.3: Sample results for "Networking and Risk" variables

Table 16: Composition of successful and unsuccessful businesses' samples according to "Networking and Risk" variables

		Access to financial services outside Move?	Other sources of Income?	Advantageous networking?	Cooperative or professional association?
		YES	YES	YES	YES
EXPANSION	SUC.	73%	9%	27%	36%
	UNSUC.	25%	25%	25%	0%
INITIAL	SUC.	75%	100%	50%	25%

	UNSUC.	18%	45%	9%	9%
TOTAL	SUC.	73%	33%	33%	33%
	UNSUC.	20%	40%	13%	7%
	TOTAL	47%	37%	23%	20%

Appendix 5.7.1: Sample results for "Price and Costs" variables

Table 17: Composition of successful and unsuccessful businesses' samples according to "Price and Costs" variables

		Tax /licences FREE?	Adequate price?	Equal pricing?	High-scale?	Large unitary variable margins?	Cost confirmation?	Suppliers' confirmation?	Local raw materials?
		YES	YES	YES	YES	YES	YES	YES	YES
EXPANSION	SUC.	36%	91%	82%	18%	73%	91%	91%	36%
	UNSUC.	50%	75%	75%	25%	75%	50%	50%	25%
INITIAL	SUC.	75%	75%	50%	50%	50%	75%	100%	0%
	UNSUC.	45%	91%	82%	18%	55%	73%	73%	55%
TOTAL	SUC.	47%	87%	73%	27%	67%	87%	93%	27%
	UNSUC.	47%	87%	80%	20%	60%	67%	67%	47%
	TOTAL	47%	87%	77%	23%	63%	77%	80%	37%

Appendix 5.7.2: Sample results for "Communication and Channels" variables

Table 18: Composition of successful and unsuccessful businesses' samples according to "Communication and Channels" variables

		Initial communication?	Further communication?	Well defined communication target?	Communication getting to target?	Correct distribution channels?	Direct marketing approach?	Accessible business location?
		YES	YES	YES	YES	YES	YES	YES
EXPANSION	SUC.	45%	27%	27%	18%	100%	100%	91%
	UNSUC.	25%	25%	25%	25%	100%	100%	100%
INITIAL	SUC.	75%	75%	50%	50%	100%	100%	100%
	UNSUC.	45%	55%	64%	55%	82%	100%	91%
TOTAL	SUC.	53%	40%	33%	27%	100%	100%	93%
	UNSUC.	40%	47%	53%	47%	87%	100%	93%
	TOTAL	47%	43%	43%	37%	93%	100%	93%

Appendix 6: A model to screen business potential of micro and small enterprises in the Island of Mozambique

A) BUSINESS TRAINING[9]

B) ASSESS BUSINESS POTENTIAL AND GIVE RECOMMENDATIONS TO IMPROVE POTENTIAL OF SUCCESS

	TO HAVE IN ACCOUNT	TO HEAVILY WEIGHT	KEY FACTOR[10]
OPTIMISTIC FACTOR	★	★★	★★★
CONSTRAINT	☠	☠☠	☠☠☠
REQUIRES A DECISION	?		

BUSINESS DEVELOPMENT STAGE (in each step, the NGO must decide if it is worthy to go forward to the next step)	FACTORS TO HAVE IN ACCOUNT	OPTIMISTIC FACTOR / CONSTRAINT / DECISION	FACTORS TO HAVE IN ACCOUNT	OPTIMISTIC FACTOR / CONSTRAINT / DECISION
1. Segment the market; Define the target customer; Get client's feedback	Product or Service?			
	Product	☠	Service	★★★
	Does the product solve basic needs in demand (lack of supply)?			
	Basic needs		Non-basic needs	
2. Benchmarking; Competition sizing; Define positioning	Lack of supply	★	Lack of supply	★
	Supply already satisfies demand	☠	Supply already satisfies demand	☠
		How to differentiate?		Bring a novelty to the market?
		Based on benchmarking and client's feedback: change location, have constant availability, have a lower price / better quality or service, go for a niche market.		High risk, high return

[9] This stage is crucial to improve probabilities of business success: the sample shows that management capabilities of entrepreneurs in this context are poor, meaning they need support in managing family and business budgets (prevalently managed together), executing business plans, complying with commitments and plans, saving and planning habits.

[10] Criteria to define a variable as a key success factor: (a) high probability of success if the variable is verified; or (b) percentage of that variable confirmed in the sample is very high or very low for successful businesses and has a significant difference relative to the control group – **in order to understand the relevance and weight of each result, a margin of error (T-student distribution, p=0.90, v=n-1) was applied to each variable's percentage found in the sample: if the successful and unsuccessful businesses' confidence intervals would not coincide, then the variables would be very relevant.**

3. Find more about the entrepreneur	What is the stage of the business during the loan? Initial (loan purpose: to open or re-open) or Expansion (loan purpose: to expand)?			
	Initial (Start-up)	☠☠	Expansion (grow)	★★
	The Entrepreneur			
	Secondary school completed	★★★	Secondary school completed	★
	Planning habits	★★★	Planning habits	★
	Experience in the field business	★		
	Technical knowledge	★★	Technical knowledge	★★★
	Compliance with schedules during business planning	★★	Compliance with schedules during business planning	★★
	Saving habits	★★★	Saving habits	★★
	Networking	★★	Networking	★
	Cooperatives	★	Cooperatives	★★★
	Other sources of income	★★★	Other sources of income	☠
	Other sources of credit	★★ Help the poorest or the less risky? Trade-off: helping the people with lower business risk or the poorest of the poor, who usually have the highest risk and less access to credit	Other sources of credit	★★ Help the poorest or the less risky? Trade-off: helping the people with lower business risk or the poorest of the poor, who usually have the highest risk and less access to credit
4. Confirm best cost trade-offs and availability of all suppliers	Costs			
	Local raw materials	☠☠☠	Local raw materials	☠
	High-Scale	★		
	Large unitary variable margins	★	Large unitary variable margins	★★
	Tax free	★★		
	Unpredictable family costs	☠	Unpredictable family costs	☠
5. Define the Marketing Mix according to Target and Positioning	Price			
	Price that does not cover costs	☠☠☠ Lower costs or higher price? (further research)	Price that does not cover costs	☠☠☠ Lower costs or higher price? (further research)
	Price is too expensive for the willingness or ability to pay of the target market	☠☠☠ How to decrease the price? (further research)	Price is too expensive for the willingness or ability to pay of the target market	☠☠☠ How to decrease the price? (further research)
			Equal pricing	★
	Channels			
	Direct Marketing approach	★ What distribution channels are the best to reach the target market?	Direct Marketing approach	★ What distribution channels are the best to reach the target market?

		(further research)		(further research)
	Communication			
	Communication plans for the launch of the product or service	★★		
		Who is the target of the communication and how will that target be reached?		
		(further research)		
	Communication plans for some months after the launch of the product or service	★★		
6. Test and confirm sales (or go back to previous steps if needed). A micro-micro-loan may be needed for the test.	Proof of concept			
	Early positive validation of the business model by testing a MVP	★★★	The business has been profitable until now	★★★
7. Decide the presence of business potential	Does the business make money?			
	The product /service sells and the MVP test left demand without supply	★★★	The business is scalable. High probabilities of incremental income due to the loan. E.g. incremental sales, scale economies, increase in productivity with demand to justify incremental production	★★★
8. Define how to mitigate External Constraints	Most common External risks			
	Robbery; health problems of the entrepreneur or relatives; infrastructural (e.g. no capacity to handle electricity power at home); very high costs or impossibility to fix damaged machinery; raw material price volatility; weather	☠☠☠	Robbery; health problems of the entrepreneur or relatives; infrastructural (e.g. no capacity to handle electricity power at home); very high costs or impossibility to fix damaged machinery; raw material price volatility; weather	☠☠☠
		How to mitigate External Constraints?		How to mitigate External Constraints?
		(further research may include: cooperatives, other sources of income, insurance, costs and suppliers confirmation before loan disbursement, second loans, etc.)		(further research may include: cooperatives, insurance, costs and suppliers confirmation before loan disbursement, second loans, etc.)

C) ASSESS FAMILY AND COMMUNITY IMPACT POTENTIAL

D) LOAN APPROVAL DECISION: business potential + family impact + community impact = YES

E) LOAN PLANNING AND DISBURSEMENT :

Dimensions to define	To be had in account:
Define value of the loan	Progressive investment is safer for all. MFI's should not put a lot of money in the development of new businesses, but only in proven business models
Define instalments value: Instalment = Business Revenues - Business Costs - Family Costs - Saving Needs	Worst case scenario sales and costs estimations. External threats: robbery; health problems of the entrepreneur or relatives; infrastructural (e.g. no capacity to handle electricity power at home); very high costs or impossibility to fix damaged machinery; raw material price volatility; weather

F) COACH BUSINESS DEVELOPMENT AND MONITOR BUSINESS PERFORMANCE AND LOAN REPAYMENT

G) SOLVE FURTHER NEEDS:

<table>
<tr><td>Re-negotiate loan instalments</td><td colspan="2">Flexibility is good</td></tr>
<tr><td rowspan="2">New loan to re-open</td><td colspan="2">Reason for shutting down?</td></tr>
<tr><td>External Factors
If motivation from the entrepreneur to re-open, go back to (A): Start-up</td><td>Endogenous factors
</td></tr>
<tr><td>New loan to expand</td><td colspan="2">Go back to (A): Expansion</td></tr>
</table>